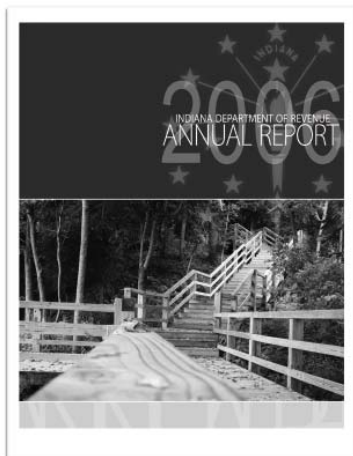


INDIANA DEPARTMENT OF REVENUE ANNUAL REPORT



About the Cover Photo:



The new walking trail in Fort Harrison State Park, as shown on the cover, was made possible through Hoosier tax dollars.

The Department of Revenue chose this photo subject because it symbolizes a path to a stronger Indiana. Whether it is creating new jobs, building a better infrastructure through *Major Moves* or encouraging Hoosiers to get healthy through *INShape Indiana*, the goal for all state agencies under Gov. Mitch Daniels' is the same – make Indiana a better place for Hoosiers to live, work and do business.



Indiana Department of Revenue 2006 Annual Report

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LETTER FROM THE COMMISSIONER

October 1, 2006

The Honorable Mitchell E. Daniels, Jr.
Governor, State of Indiana
State House, Room 206
Indianapolis, Indiana 46204-2797

Dear Governor Daniels:

The following document represents the Indiana Department of Revenue's sixteenth annual report, covering Fiscal Year 2006 (July 1, 2005 – June 30, 2006), as required by Indiana law.

Fiscal Year 2006 included a number of key achievements and additional discoveries for improvements. Each of these contribute to progress in being more customer oriented, more efficient and effective, and focused on selecting and developing quality employees.

Several initiatives were rolled out in Fiscal Year 2006 that supports the Department's mission and strategic direction:

- Indiana Tax Amnesty was launched, collecting more than \$244 million in delinquent state taxes.
- New online tools and marketing efforts helped increase electronic filing by 20 percent, versus the previous year.
- Mandatory customer-service training was implemented throughout the Department, and is now integrated as a required part of new-employee orientation.
- In addition, supervisor training was begun, which covers all aspects of employee management, from listening and coaching, to performance-management planning.

Discoveries throughout FY 2006 have led to new legislation and collection practices to begin in FY 2007, such as:

- New legislation, effective Jan. 1, 2007, requiring that retail merchant certificates must be renewed biennially, and anyone delinquent in paying sales tax would be prohibited from renewing the certificate.
- Scheduled monthly billings for delinquent sales and withholding taxes.
- Enlisting the use of professional collection agencies to assist with aged liabilities that are often difficult to collect on.

In FY 2007, the Department will continue to focus its efforts on reshaping the agency to be a more efficient and effective operation – one that “buys results,” rather than merely supports the “cost of running government.”

Sincerely,



John Eckart
Commissioner

TAXPAYER BILL OF RIGHTS
Public Law 332-1989
(Special Session)

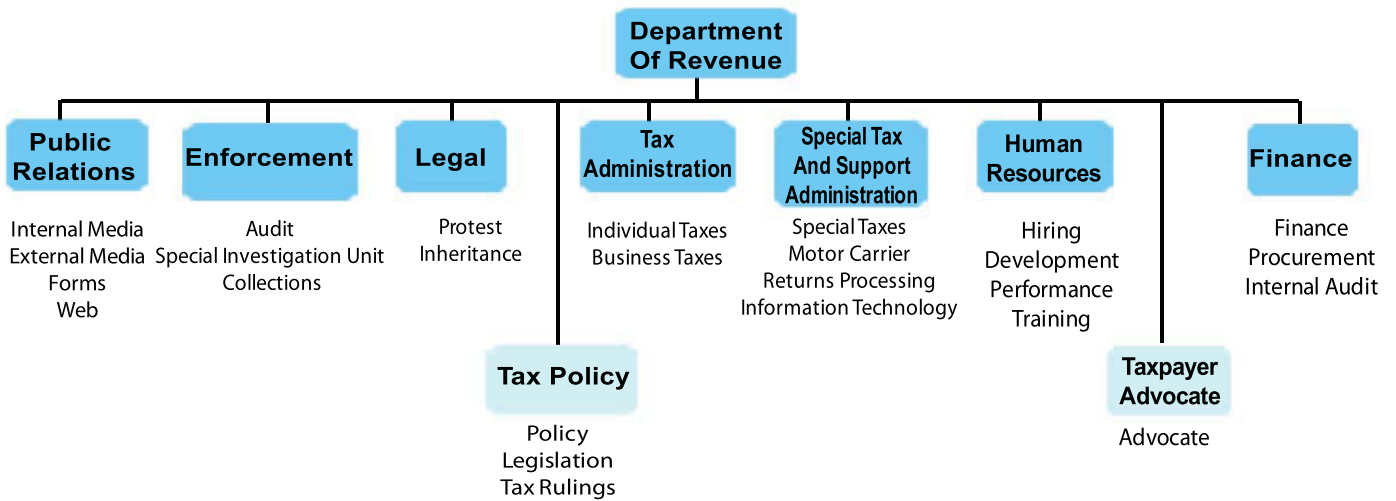
Indiana Taxpayer Rights and Responsibilities

All Indiana taxpayers have certain rights and responsibilities that correspond to the Indiana tax laws. The Taxpayer Bill of Rights sets forth these rights and responsibilities for Indiana Taxpayers:

- I** Quality taxpayer service
- II** Taxpayer Advocate to help taxpayers in the preservation of their rights
- III** Taxpayer education and information
- IV** A fair collection process
- V** Appointed hearing time and representation
- VI** Demand Notices
- VII** Warrants for collection of tax
- VIII** Judgment liens against property
- IX** Annual Public Hearing and Department Report
- X** Taxpayer responsibilities



Departmental Organizational Structure



Indiana Tax Descriptions and Receipts

All amounts are in thousands. Percentage change reflects increase from FY05 to FY06, unless otherwise indicated. Significant differences reflected in the tax receipts may be due to Indiana Tax Amnesty.

Aircraft License Excise Tax

Excise tax, due at the time of registration, is determined by weight, age and type of aircraft. All excise tax is distributed to the county where the aircraft is usually located, when not in use.

FY96	\$ 404.4	FY00	\$ 430.0	FY04	\$ 641.8
FY97	\$ 377.6	FY01	\$ 513.8	FY05	\$ 753.4
FY98	\$ 381.8	FY02	\$ 548.9	FY06	\$592.6
FY99	\$ 392.9	FY03	\$ 649.7	CHANGE	-21.34%

Alcoholic Beverage Tax

Per gallon rates are based on the wholesale purchase of the following: beer, \$.115; liquor/wine (21 percent alcohol or more), \$2.68; wine (less than 21 percent alcohol), \$.047; mixed beverages (14 percent or less), \$.047.

FY96	\$ 33,847.8	FY00	\$ 36,240.5	FY04	\$ 38,509.2
FY97	\$ 33,942.4	FY01	\$ 36,597.8	FY05	\$ 38,719.4
FY98	\$ 33,087.8	FY02	\$ 37,458.3	FY06	\$ 40,529.6
FY99	\$ 35,148.9	FY03	\$ 37,678.6	CHANGE	4.68%

Auto Rental Excise Tax

Rates are based on the gross retail income from the rental of a vehicle weighing less than 11,000 pounds for less than a 30-day period at a rate of 4 percent.

FY96	\$ 6,981.3	FY00	\$ 8,101.9	FY04	\$ 8,940.9
FY97	\$ 7,836.8	FY01	\$ 9,846.8	FY05	\$ 8,840.8
FY98	\$ 8,047.7	FY02	\$ 9,126.7	FY06	\$ 9,889.1
FY99	\$ 8,914.0	FY03	\$ 9,500.9	CHANGE	11.86%

Charity Gaming Excise Tax

Tax based on the sale of pull tabs, punchboards and tip boards to qualified organizations licensed for charity gaming at a rate of 10 percent of the wholesale price. Remitted by the licensed distributor or manufacturer (not the organization).

FY96	\$ 1,008.1	FY00	\$ 1,211.1	FY04	\$ 1,231.5
FY97	\$ 1,194.3	FY01	\$ 1,521.0	FY05	\$ 1,244.4
FY98	\$ 1,222.7	FY02	\$ 1,382.5	FY06	\$ 1,384.4
FY99	\$ 1,313.1	FY03	\$ 1,311.9	CHANGE	11.25%

Cigarette/Other Tobacco Tax

Levied against cartons or packs of cigarettes and cigarette papers, wrappers and tubes at the following rates: pack of 20 cigarettes, \$.555; pack of 25 cigarettes, \$.69375; other tobacco products, 18 percent of wholesale price.

FY96	\$ 123,720.2	FY00	\$ 125,151.5	FY04	\$ 338,715.7
FY97	\$ 128,420.3	FY01	\$ 120,827.4	FY05	\$ 343,077.9
FY98	\$ 127,969.1	FY02	\$ 123,214.8	FY06	\$ 355,525.0
FY99	\$ 127,634.1	FY03	\$ 352,375.1	CHANGE	3.63%

Controlled Substance Excise Tax

Imposes a tax on illegally delivered, manufactured or possessed controlled substances. (Prescription pharmaceuticals are exempt.) Tax based on the weight and schedule of substance. Rates vary from \$3.50 to \$40 per gram. Once paid, a taxpayer who can remain anonymous is given a receipt for the tax, which is valid for a specific time period. The payment of this tax does not legalize the controlled substance or the activity associated with it.

FY96	\$ 110.4	FY00	\$ 60.2	FY04	\$ 33.9
FY97	\$ 192.9	FY01	\$ 86.5	FY05	\$ 30.4
FY98	\$ 101.2	FY02	\$ 44.4	FY06	\$ 352.6
FY99	\$ 55.5	FY03	\$ 82.5	CHANGE	1059.87%



Corporate Adjusted Gross Income Tax

The adjusted gross income tax was increased from 3.4 percent to 8.5 percent on Jan. 1, 2003.

FY96	\$ 911,725.7	FY00	\$ 950,323.9	FY04	\$ 443,078.0
FY97	\$ 924,048.3	FY01	\$ 842,546.3	FY05	\$ 608,370.0
FY98	\$ 950,488.6	FY02	\$ 687,877.6	FY06	\$ 796,118.2
FY99	\$ 1,006,572.4	FY03	\$ 307,178.8	CHANGE	30.86%

County Adjusted Gross Income Tax (CAGIT)

Tax determined locally for county residents or nonresidents whose principal place of employment is within a county which imposes the tax. Rates vary. (A county may adopt either the County Adjusted Gross Income Tax or the County Option Income Tax, but not both.)

FY96	\$ 236,047.2	FY00	\$ 284,537.8	FY04	\$ 343,586.3
FY97	\$ 243,561.6	FY01	\$ 308,062.2	FY05	\$ 338,871.6
FY98	\$ 254,264.0	FY02	\$ 343,479.4	FY06	\$ 388,450.7
FY99	\$ 265,759.0	FY03	\$ 321,835.7	CHANGE	14.63%

County Economic Development Income Tax (CEDIT)

Tax determined locally for county residents or nonresidents whose principal place of employment is within a county which imposes the tax. Rates vary.

FY96	\$ 74,388.0	FY00	\$ 121,817.0	FY04	\$ 172,682.2
FY97	\$ 80,456.4	FY01	\$ 140,547.2	FY05	\$ 159,007.6
FY98	\$ 97,879.2	FY02	\$ 160,225.3	FY06	\$ 238,804.3
FY99	\$ 112,551.9	FY03	\$ 146,937.1	CHANGE	50.18%

County Innkeepers Tax (CIT)

Tax determined locally at a rate not to exceed 5 percent of the gross income derived from lodging income (9 percent in Marion County). Tax may be collected either by the Department or locally through the county treasurer's office.

FY96	\$ 14,973.1	FY00	\$ 21,077.4	FY04	\$ 24,410.5
FY97	\$ 15,600.7	FY01	\$ 24,073.7	FY05	\$ 26,120.3
FY98	\$ 18,962.8	FY02	\$ 22,586.8	FY06	\$ 36,357.7
FY99	\$ 20,251.1	FY03	\$ 24,043.4	CHANGE	39.19%

County Option Income Tax (COIT)

Tax determined locally for county residents or nonresidents whose principal place of employment is within a county which imposes the tax. Rates vary. (A county may adopt the County Option Income Tax or the County Adjusted Gross Income Tax, but not both.)

FY96	\$ 285,327.6	FY00	\$ 394,089.4	FY04	\$ 424,603.1
FY97	\$ 314,942.0	FY01	\$ 437,437.3	FY05	\$ 401,887.5
FY98	\$ 344,646.5	FY02	\$ 497,555.7	FY06	\$ 492,320.2
FY99	\$ 368,343.2	FY03	\$ 463,054.0	CHANGE	22.50%

EstateTax

Based on the difference between the state death tax credit allowed at the federal level and the amount paid in state inheritance tax. Federal estate tax credit for state calculations is being phased out, resulting in the reduction in Indiana estate tax paid.

FY96	\$ 4,383.9	FY00	\$ 21,022.0	FY04	\$ 7,732.4
FY97	\$ 8,886.0	FY01	\$ 28,936.1	FY05	\$ 2,085.2
FY98	\$ 11,241.3	FY02	\$ 17,979.7	FY06	\$ (68.5)*
FY99	\$ 24,700.4	FY03	\$ 32,264.5	CHANGE	-103.29%

**Due to the phase out of Estate Tax collection; resident and nonresident estate-tax amounts due to the state decreased, while refunds of those taxes increased. These events resulted in a negative net amount of revenue.*

Financial Institutions Tax

Based on the federal adjusted gross income at a rate of 8.5 percent for businesses which are engaged in extending credit, leasing (when it is the economic equivalent of extending credit) or credit card operations.

FY96	\$ 122,142.0	FY00	\$ 79,365.8	FY04	\$ 79,608.6
FY97	\$ 100,682.9	FY01	\$ 55,594.3	FY05	\$ 91,977.7
FY98	\$ 95,967.3	FY02	\$ 63,644.4	FY06	\$ 87,229.7
FY99	\$ 81,883.8	FY03	\$ 123,444.4	CHANGE	-5.16%

Food and Beverage Tax

Tax determined locally for purchases of food and beverages for immediate consumption at a rate of 1 percent of retail sales price. Marion County's rate is 2 percent.

FY96	\$ 21,341.0	FY00	\$ 26,021.0	FY04	\$ 29,550.2
FY97	\$ 22,239.9	FY01	\$ 26,438.9	FY05	\$ 30,370.8
FY98	\$ 23,683.5	FY02	\$ 27,859.6	FY06	\$ 54,266.2
FY99	\$ 23,574.1	FY03	\$ 27,842.3	CHANGE	78.68%

Gasoline Tax

The gasoline tax is \$.18 per gallon for all invoiced gallons of gasoline collected by the licensed distributor and added to the selling price.

FY96	\$ 437,096.3	FY00	\$ 464,152.8	FY04	\$ 582,610.7
FY97	\$ 443,869.2	FY01	\$ 493,684.2	FY05	\$ 579,675.0
FY98	\$ 455,569.6	FY02	\$ 480,808.9	FY06	\$ 570,490.2
FY99	\$ 466,427.9	FY03	\$ 518,295.6	CHANGE	-1.58%

Hazardous Waste Disposal Tax

Based on the amount of hazardous waste (as defined by statute) placed in a disposal facility or by means of underground injection at a rate of \$11.50 per ton.

FY96	\$ 2,575.5	FY00	\$ 1,770.1	FY04	\$ 1,219.2
FY97	\$ 2,390.1	FY01	\$ 1,542.5	FY05	\$ 3,281.3
FY98	\$ 2,603.0	FY02	\$ 1,304.5	FY06	\$ 3,178.9
FY99	\$ 1,744.7	FY03	\$ 1,122.6	CHANGE	-3.12%

Individual Adjusted Gross Income Tax

Based on the federal adjusted gross income with numerous adjustments for individual residents, partners, stockholders in S corporations, trusts, estates and nonresidents with Indiana income sources at a rate of 3.4 percent.

FY96	\$ 2,966,265.7	FY00	\$ 3,753,339.5	FY04	\$ 3,807,860.9
FY97	\$ 3,197,117.8	FY01	\$ 3,779,805.4	FY05	\$ 4,213,210.2
FY98	\$ 3,433,445.9	FY02	\$ 3,540,819.1	FY06	\$ 4,381,548.1
FY99	\$ 3,699,316.6	FY03	\$ 3,644,159.4	CHANGE	4.00%

Inheritance Tax

Based on the taxpayer class (transferee's relationship to deceased); property's taxable value; residency status; and situs of real and tangible property and intangible property.

FY96	\$ 93,767.2	FY00	\$ 119,198.1	FY04	\$ 132,262.8
FY97	\$ 106,470.1	FY01	\$ 134,748.2	FY05	\$ 150,315.5
FY98	\$ 113,141.7	FY02	\$ 123,905.6	FY06	\$ 148,976.6
FY99	\$ 124,011.8	FY03	\$ 165,710.5	CHANGE	-0.89%

Marion County Admissions Tax

Specific to the RCA Dome, Victory Field and Conseco Fieldhouse in Indianapolis for any event at a rate of 6 percent of the admission price (does not include events sponsored by education institutions, religious or charitable organizations.)

FY96	\$ 860.3	FY00	\$ 4,567.5	FY04	\$ 5,041.8
FY97	\$ 966.3	FY01	\$ 4,527.7	FY05	\$ 5,212.6
FY98	\$ 931.4	FY02	\$ 4,247.0	FY06	\$ 6,273.3
FY99	\$ 1,209.9	FY03	\$ 4,457.0	CHANGE	20.35%



Marion County Supplemental Auto Rental Excise Tax

Based on the gross retail income from the rental of passenger motor vehicles and trucks in Marion County for less than a 30-day period at a rate of 4 percent. Revenue from the tax is paid to the Capital Improvement Board of Managers.

FY96	-----	FY00	\$ 1,658.7	FY04	\$ 1,827.3
FY97	-----	FY01	\$ 1,883.7	FY05	\$ 1,941.3
FY98	\$ 1,330.1	FY02	\$ 1,950.4	FY06	\$ 3,319.7
FY99	\$ 1,667.8	FY03	\$ 1,772.5	CHANGE	71.00%

Motor Carrier Fuel Tax

Per gallon rate of \$0.16 for all motor fuel used by commercial motor carriers operating on Indiana highways.

FY96	\$ 9,605.5	FY00	\$ 5,745.2	FY04	\$ 6,759.4
FY97	\$ 7,431.2	FY01	\$ 3,727.0	FY05	\$ 6,034.3
FY98	\$ 9,869.4	FY02	\$ 5,068.7	FY06	\$ 3,481.2
FY99	\$ 7,039.4	FY03	\$ 5,186.2	CHANGE	-42.31%

Motor Carrier Surcharge Tax

Per gallon rate of \$0.11 for all motor fuel used by commercial motor carriers operating on Indiana highways.

FY96	\$ 67,380.2	FY00	\$ 76,747.4	FY04	\$ 85,343.2
FY97	\$ 61,220.0	FY01	\$ 90,891.2	FY05	\$ 84,280.2
FY98	\$ 93,552.6	FY02	\$ 79,466.6	FY06	\$ 91,040.2
FY99	\$ 90,232.4	FY03	\$ 79,540.8	CHANGE	8.02%

Motor Vehicle Excise Tax

Specific compliance program authorized by statute aimed at locating vehicles owned by Indiana residents and registered illegally out of state, thus avoiding state vehicle excise tax. Based on the age and class of vehicle, plus penalty and interest for the time period vehicle is illegally registered. (Except for this program, motor vehicle excise tax is otherwise collected by the Bureau of Motor Vehicles.)

FY96	\$ 832.1	FY00	\$ 122.1	FY04	\$ 11.2
FY97	\$ 732.1	FY01	\$ 20.4	FY05	\$ 148.6
FY98	\$ 468.6	FY02	\$ 14.1	FY06	\$ 175.1
FY99	\$ 281.4	FY03	\$ 10.9	CHANGE	17.83%

Pari-Mutual Admission Tax

Imposed at \$0.20 for each person who pays an admission charge to a racetrack grounds or satellite facility.

FY96	\$ 62.7	FY00	\$ 21.4	FY04	\$ 8.0
FY97	\$ 34.8	FY01	\$ 18.3	FY05	\$ 3.7
FY98	\$ 29.6	FY02	\$ 13.9	FY06	\$ 4.1
FY99	\$ 26.0	FY03	\$ 9.7	CHANGE	10.81%

Pari-Mutual Wagering Tax

A 2-percent levy is imposed on the total amount of money wagered on online races and simulcasts conducted at a permit holder's racetrack. The tax is 2.5 percent of the total amount of money wagered on simulcasts from satellite facilities.

FY96	\$ 3,211.9	FY00	\$ 3,751.7	FY04	\$ 4,154.2
FY97	\$ 3,450.2	FY01	\$ 3,534.3	FY05	\$ 4,515.1
FY98	\$ 3,499.1	FY02	\$ 3,537.4	FY06	\$ 4,398.8
FY99	\$ 3,648.5	FY03	\$ 3,744.8	CHANGE	-2.58%

Petroleum Severance Tax

Levied against producers or owners of crude oil or natural gas and imposed at the time these products are removed from the ground at a rate equal to the greater of either 1 percent of the petroleum value, or \$0.03 per 1,000 cubic feet for natural gas and \$0.24 per barrel of oil.

FY96	\$ 574.0	FY00	\$ 467.0	FY04	\$ 557.5
FY97	\$ 614.9	FY01	\$ 565.3	FY05	\$ 928.8
FY98	\$ 642.5	FY02	\$ 579.8	FY06	\$ 1,161.4
FY99	\$ 506.3	FY03	\$ 517.2	CHANGE	25.04%



Public Utility Tax (Railroad Car Companies/Railroads)

Based each year on assessments by the Indiana Department of Local Government Finance on the indefinite-situs distributable property of a railroad company that provides service within a commuter transportation district. This reduction reflects the reassessment of 2003.

FY96	\$ 4,894.7	FY00	\$ 5,996.7	FY04	\$ 3,596.9
FY97	\$ 5,077.9	FY01	\$ 8,586.6	FY05	\$ 3,281.8
FY98	\$ 5,080.2	FY02	\$ 5,020.5	FY06	\$ 4,255.1
FY99	\$ 5,786.7	FY03	\$ 5,815.5	CHANGE	29.66%

Riverboat Admissions Tax

Specific to any licensed riverboat on Indiana waterways at a rate of \$3 per person admitted.

FY96	\$ 4,597.7	FY00	\$ 116,565.6	FY04	\$ 80,684.6
FY97	\$ 56,262.5	FY01	\$ 118,630.0	FY05	\$ 80,926.2
FY98	\$ 90,921.4	FY02	\$ 127,769.1	FY06	\$ 81,095.2
FY99	\$ 110,745.4	FY03	\$ 80,553.4	CHANGE	0.21%

Riverboat Wagering Tax

If a licensed riverboat does not have flexible scheduling (dockside gaming), a tax of 22.5 percent (up from 20 percent) is levied against its adjusted gross receipts (total wagers, less payouts, less uncollected gaming receivables). If the boat has implemented flexible scheduling, the tax rate is graduated and ranges from 15 percent to 35 percent, depending on the adjusted gross receipts.

FY96	\$ 13,354.7	FY00	\$ 328,200.8	FY04	\$ 679,482.9
FY97	\$ 146,084.1	FY01	\$ 349,092.0	FY05	\$ 709,573.2
FY98	\$ 231,890.1	FY02	\$ 381,814.2	FY06	\$ 718,082.3
FY99	\$ 295,181.4	FY03	\$ 586,437.0	CHANGE	1.20%

Sales and Use Tax

Six percent on purchases of tangible personal property, public utility service and some rental transactions, which is collected at the retail level.

FY96	\$ 2,965,275.9	FY00	\$ 3,687,291.7	FY04	\$ 4,759,445.3
FY97	\$ 3,145,959.5	FY01	\$ 3,723,138.6	FY05	\$ 5,001,048.9
FY98	\$ 3,278,755.6	FY02	\$ 3,798,489.0	FY06	\$ 5,336,782.3
FY99	\$ 3,414,847.5	FY03	\$ 4,210,262.5	CHANGE	6.71%

Special Fuel Tax

A license tax of \$0.16 per gallon imposed on all special fuel sold or used in producing or generating power for propelling motor vehicles.

FY96	\$ 143,727.0	FY00	\$ 186,794.0	FY04	\$ 183,826.1
FY97	\$ 147,552.8	FY01	\$ 151,335.7	FY05	\$ 193,127.5
FY98	\$ 151,245.0	FY02	\$ 170,308.4	FY06	\$ 196,812.7
FY99	\$ 161,779.4	FY03	\$ 172,712.6	CHANGE	1.91%

Utility Receipts Tax

The Utility Receipts Tax is 1.4-percent on gross receipts from retail utility sales. (**NOTE:** Fiscal Year 2003 figures include only one-half of a fiscal year.)

FY96	-----	FY00	-----	FY04	\$ 167,401.1
FY97	-----	FY01	-----	FY05	\$ 170,814.6
FY98	-----	FY02	-----	FY06	\$ 206,380.1
FY99	-----	FY03	\$ 75,907.7	CHANGE	20.82%



Miscellaneous Fees:

Aircraft Registration Fee

All Indiana aircraft are required to be registered with the aeronautics section of the compliance division, where an annual \$10 registration/transfer fee is collected. An additional fee of \$20 or 20-percent (whichever is greater) of any unpaid excise tax is charged on all late registrations. There is also an annual aircraft dealers fee of \$25.

FY96	\$ 68.0	FY00	\$ 79.6	FY04	\$ 75.1
FY97	\$ 68.4	FY01	\$ 118.9	FY05	\$ 100.5
FY98	\$ 70.2	FY02	\$ 94.5	FY06	\$ 76.9
FY99	\$ 65.1	FY03	\$ 76.5	CHANGE	-23.48%

Charity Gaming Licensing Fee

Licensing fee for qualified organizations is \$25 for the first license. The second license for the same charity gaming activity is based on gross receipts of the previous event. The annual license fee for distributors is \$2,000. The annual license for manufacturers is \$3,000.

FY96	\$ 3,635.1	FY00	\$ 4,328.0	FY04	\$ 4,038.9
FY97	\$ 3,997.2	FY01	\$ 4,303.4	FY05	\$ 4,020.0
FY98	\$ 3,950.1	FY02	\$ 4,282.5	FY06	\$ 4,040.5
FY99	\$ 4,264.6	FY03	\$ 4,208.7	CHANGE	0.51%

Employment Agency Licensing Fee

A person, firm or corporation opening, operating or maintaining an employment agency must pay an annual \$150 fee for each license.

FY96	\$ 42.2	FY00	\$ 51.6	FY04	\$ 43.8
FY97	\$ 37.7	FY01	\$ 54.5	FY05	\$ 51.5
FY98	\$ 53.1	FY02	\$ 57.9	FY06	\$ 35.4
FY99	\$ 51.3	FY03	\$ 49.7	CHANGE	-31.26%

Hazardous Chemical Fee

An annual fee is imposed on a facility which must submit to the state an emergency and hazardous chemical inventory form. Fees are \$50, \$100 or \$200, depending on the volume of hazardous chemicals present at the facility during the year.

FY96	\$ 652.2	FY00	\$ 546.2	FY04	\$ 662.0
FY97	\$ 650.5	FY01	\$ 511.3	FY05	\$ 689.3
FY98	\$ 623.1	FY02	\$ 573.4	FY06	\$ 588.5
FY99	\$ 576.4	FY03	\$ 581.7	CHANGE	-14.62%

International Registration Plan (IRP) Licensing Fee

Licensing fee for motor carriers based on miles driven in specific jurisdictions.

FY96	\$ 67,140.5	FY00	\$ 89,320.1	FY04	\$ 86,454.0
FY97	\$ 74,300.4	FY01	\$ 76,728.7	FY05	\$ 95,593.6
FY98	\$ 71,577.9	FY02	\$ 80,293.7	FY06	\$ 88,147.4
FY99	\$ 75,941.9	FY03	\$ 82,395.1	CHANGE	-7.79%

Oversize /Overweight Permit Fee

Various categories of permits for motor carriers that are issued for different periods of time, based upon a vehicle's specific dimension and /or size and the travel activity. Fees can range from \$10 to more than \$400.

FY96	\$ 3,701.8	FY00	\$ 12,782.3	FY04	\$ 11,498.9
FY97	\$ 9,844.3	FY01	\$ 12,358.6	FY05	\$ 12,090.5
FY98	\$ 11,252.7	FY02	\$ 11,849.5	FY06	\$ 13,001.5
FY99	\$ 11,528.3	FY03	\$ 11,041.1	CHANGE	7.53%



Solid Waste Management Fee

Imposed on the disposal or incineration of solid waste in a final disposal facility within the state at a rate of \$.50 per ton of waste generated in the state. For solid waste generated outside the state, the rate is the greater of \$.50 per ton or the cost per ton of disposing the solid waste, including the tipping fees and state and local government fees, in the final disposal facility that is closest to the area in which the solid waste was generated, minus the fee actually charged for the disposal or incineration of the solid waste by the owner or operator of the final disposal facility.

FY96	\$ 3,850.6	FY00	\$ 4,516.8	FY04	\$ 4,358.6
FY97	\$ 4,494.4	FY01	\$ 4,318.0	FY05	\$ 5,173.2
FY98	\$ 4,623.0	FY02	\$ 4,320.3	FY06	\$ 5,309.8
FY99	\$ 4,612.7	FY03	\$ 4,002.8	CHANGE	2.64%

Underground Storage Tank Fee

An annual fee of \$200 per tank is imposed on owners of underground storage tanks. In addition, there is an annual registration fee of \$90 for each underground petroleum storage tank, and \$45 for each underground storage tank containing regulated substances other than petroleum.

FY96	\$ 6,580.6	FY00	\$ 27,709.5	FY04	\$ 32,065.1
FY97	\$ 8,481.2	FY01	\$ 32,467.5	FY05	\$ 29,396.5
FY98	\$ 28,758.2	FY02	\$ 24,306.6	FY06	\$ 50,454.5
FY99	\$ 26,409.5	FY03	\$ 35,992.1	CHANGE	71.63%

Waste Tire Management Fee

A \$.25 tire fee is assessed on each new tire sold at the retail level and each new tire mounted on a vehicle at the time a vehicle is sold. It is imposed on tires for self-propelled motor vehicles only.

FY96	\$ 1,266.7	FY00	\$ 3,203.6	FY04	\$ 1,612.0
FY97	\$ 1,333.2	FY01	\$ 911.8	FY05	\$ 1,860.0
FY98	\$ 1,253.6	FY02	\$ 613.8	FY06	\$ 1,261.4
FY99	\$ 1,963.8	FY03	\$ 1,079.3	CHANGE	-32.18%



Areas of Recurring Taxpayer Noncompliance

Returns Processing Center (RPC)

Math Calculation

Erroneous math calculations are the chief error made on all forms. The error rate is much higher on paper returns of all tax types than on electronically filed returns. The following is a brief listing of the highest percentage of errors by filing method and tax type:

- Individual 2-D Bar code returns: W-2 detail information missing
- Individual paper-filed returns: state and county tax miscalculations
- Estimated tax: claiming incorrect amounts
- Individual electronically filed returns: missing codes for deductions and credits
- Corporate paper-filed returns: math calculation errors
- Corporate electronically filed returns: estimated tax claiming incorrect amounts
- Sales tax paper-filed returns: duplicate filings
- Withholding tax paper-filed returns: duplicate filings

Post Filing Coupon (PFC)

Post filing coupons are used to pay additional tax on the Indiana individual income-tax return. For scanning equipment to properly recognize taxpayers and the amounts of their payments, PFC's must have the dollar amount and scanline in an "OCR-A Extended" font. When this is not the case, the Department may issue erroneous tax notices.

The Department has found that the scanlines on coupons from some tax practitioners are not printed in the correct font. While the software they are using is capable of printing the correct font, it is possible to install the software without the fonts or to lose the fonts when other updates are made. When an incorrect font is used, the high speed check processing equipment cannot read it, and manual keying is required.

Duplicate Returns

Some taxpayers file returns electronically, as well as paper copies of the same returns, thus creating duplicate returns. The second duplicate return received by the Department's computer system will "suspend" and must be reviewed individually. If for some reason the electronically filed federal/state return is the duplicate return, it is automatically rejected and will not create a suspended document.

Filing the Wrong Return

The Department receives numerous returns each year which are either:

1. On the correct forms but for the wrong year, or
2. On the wrong forms but for the correct year.

An example would be taxpayers submitting IT-40EZ forms, even though they do not qualify for that form because of income type or deductions.

Taxpayers who are residents of reciprocal states often file an Indiana Form IT-40 and take their home state's deductions rather than filing the appropriate Indiana Form IT-40RNR (reciprocal nonresident). The Department has found that several taxpayers are filing an IT-40RNR to claim a full refund on tax withheld on gambling winnings. Education is required at practitioner schools.

Missing W-2 Detail on 2-D Barcoded Returns

In 2004, the Department began requesting the detailed W-2 information on 2-D barcoded returns from software vendors so that the Department's Returns Processing System (RPS) could validate the amounts being claimed as Indiana state and county withholding on the IT-40.

During the 2006 processing season, even though most 2-D barcoded returns did include the detailed W-2 information, the Department still received more than 100,000 2-D barcoded returns that did not.

This problem is not limited to one particular software vendor. The majority of these 2-D barcoded returns with missing W-2 data came from Intuit's professional users. In most cases, the employers' federal identification (I.D.) numbers were missing. Thus, all W-2 information was dropped. The Department experienced this issue with the software companies of CCH Incorporated, Creative Solutions, Drake Enterprises, H & R Block, TaxWorks, Petz Enterprises and Intuit.



With the growing number of 2-D barcoded returns missing this data, and the fact that hard copies of the W-2 forms were attached to the 2-D barcoded returns in most cases, the Department is researching this matter to see what can be done internally to alleviate this issue.

Failure to Comply with Enterprise Zone Deduction

Taxpayers who live in enterprise zones and work for qualified employers in those zones may be qualified to take the enterprise zone deduction. The deduction is one-half of the earned income shown on Form IT-40QEC, or \$7,500, whichever is less. In most cases, the deductions are calculated incorrectly, or the Form IT-40QEC that should be completed and submitted by the employers is not attached to the taxpayer's Form IT-40. In the case of electronic returns, the IT-40QEC is not being submitted by the preparers, as instructed, on a regular basis.

Trust Taxes – Retail Sales and Use Tax and/or Withholding Tax

- Taxpayers send incomplete registration information to the Department, which delays completing tax registrations, assigning state I.D. numbers prior to filing payments and coupons. Taxpayer location information and incomplete responsible officer information can delay registration of the taxpayer.
- Taxpayers fail to use Department-generated tax returns. This causes incomplete and/or incorrect information to be filed. These returns cannot be automatically processed and must be suspended for manual review and correction before posting to taxpayer accounts.
- Taxpayers and/or tax preparers do not always use the Indiana Taxpayer Identification Number (ITID) or do not use the complete number on returns, correspondence and checks. Correct posting requires the full and correct taxpayer account number.
- Taxpayers fail to use or use incorrect information when changing addresses and/or closing the business or the location. This causes incorrect filing periods and problems contacting the taxpayer. Trust taxes require taxpayers to file returns for each period covered from registration to permanent close of business.
- Amended returns correcting information previously filed are not clearly marked. This causes duplicate period filings that require manual review prior to account posting.

Corporate Income Tax

- Taxpayers are not entering their correct Indiana-issued ITID in the Indiana Taxpayer Identification Number field on tax forms. They are entering their Federal ID, a variation, or shortened version of the ITID.
- For tax periods beginning in 2002 and ending in 2003, the Department requires the IT-20 "fiscal" return and has sent out several mailings with the correct corporate return included. However, taxpayers continue to file the incorrect return.
- When claiming withholding credits on Forms IT-65 or IT-20S, taxpayers are not attaching the WH-18s as verification of the credits claimed. Credits without this verification cannot be allowed.
- Taxpayers are not answering the question, "Is an extension of time to file attached?" on their Indiana corporate returns (e.g., IT-20, IT-20S, IT-65) when state or federal extension forms are attached.

Missing Earned-Income Credit Data on Indiana Electronically Filed Returns

Although, this has been reduced automatically for the past three years, the Department has received electronically filed Indiana IT-40 tax returns with taxpayers claiming the Indiana earned-income credit, but omit some or all of the data from the electronic Indiana IN-EIC schedule.

Tax software is supposed to carry the data entered on the Federal EIC schedule through to the Indiana IN-EIC schedule, eliminating the need for the user to key in the data twice. However, whenever the designated child is someone other than a natural child, grandchild or foster child (niece, nephew, sister, brother), often none or part of the required information does not carry through properly.

The Department again brought this issue to the attention of the affected software companies last year, and most had fixed the problem. However, at the beginning of the 2006 filing season, the Department experienced this same issue with some vendors. The Department contacted the software vendors whose software was still creating this issue early, and all appear to have fixed the issue. The Department does not anticipate that this will be an issue for the 2007 filing season.

Returned Checks

The bills sent to taxpayers who have paid the Department with a check for nonsufficient funds specify that the resulting liability must be satisfied by payment in the form of cash, certified check or other guaranteed payment. Taxpayers often send uncertified checks to pay these liabilities, which can result in additional checks being returned for nonsufficient funds.



Efforts and Achievements

Compliance Division

Aeronautics/Tax Clearances Section

The aeronautics section mailed 5,092 aircraft registration renewals for the fiscal year, with a 99-percent renewal compliance rate. The Department billed 189 delinquent taxpayers for \$4,710,624. The renewal process has been streamlined from a five-day printing process to a four-hour printing process. The Department has improved the process of issuing certificates of registration for aircraft owners and aircraft dealers, and has reduced the printing cost by 50-percent.

The Department has increased efforts to verify rental exemptions by utilizing more effective technology methods.

Indiana Code 6-6-6.5-2 states that any Indiana resident who owns an aircraft must register the aircraft within 31 days from the purchase date. Any nonresident who bases an aircraft in this state for more than 60 days shall register the aircraft with the Department no later than 60 days after establishing a base in Indiana.

Also of note, the aeronautics section provided assistance to the nonprofit section. The nonprofit section had more than 5,000 suspended transactions to be completed. The current backlog is just over 200 items to be worked.

Corporate Dissolutions

The corporate dissolutions section has received 1,367 notices of corporate dissolution. Indiana Code 6-8.1-10-9 provides that any corporate officer or director becomes personally liable for all taxes, penalties, interest and fees associated with the collection of liabilities for a period of one year from the date the Department is notified of the corporation's dissolution. The corporate officers or directors become personally liable, because the dissolving corporation distributed corporate assets before all liabilities were satisfied. Corporate officers or directors may be absolved of any personal liability by obtaining a Certificate of Clearance from the Department. The Certificate of Clearance certifies that all liabilities due the Department have been satisfied. The Department was able to completely eliminate a backlog of 700 accounts, reducing it to zero.

Reinstatements

Corporations that are administratively dissolved by the Secretary of State's office for noncompliance must obtain a Reinstatement Certificate of Clearance from the Department verifying the corporation is in good standing before they can be reinstated with the Secretary of State. The Department issued 2,664 Certificates of Clearance and denied or closed 1,162 requests due to outstanding issues. Historically, the Department has maintained a backlog of between 200 and 250 accounts, getting clearances out within 20 to 45 days. The current backlog is zero, and clearances have just a few days turnaround time.

Letters of Good Standing

Corporations in the process of obtaining financial loans or other state agency grants or awards approvals will request a Letter of Good Standing. The Department has issued 178 Letters of Good Standing and denied 93 requests due to missing returns or unpaid liabilities.

Responsible Officer Billings

Responsible officer billings were generated for trust taxes representing a total due of \$3,202,549 not paid by corporations.

Federal Audits

If taxpayers do not amend their Indiana corporate income tax returns to report Indiana adjustments resulting from the federal modifications detailed in the federal Internal Revenue Service audit findings, a state tax assessment is generated. For fiscal year 2006, corporate taxpayers were billed a total of \$1,837,749.

Voluntary Compliance Program

Taxpayers who discover that they may have nexus with Indiana, but have not filed returns frequently, must contact the Department to request entering into a Voluntary Compliance Agreement. These taxpayers are often confused or unaware of filing requirements for income tax and/or sales/use taxes in Indiana. Tax due is not forgiven, nor is interest abated. Voluntary Compliance Agreements resulting in \$2,169,583 of taxes collected were entered into for the fiscal year ending June 30, 2006.

Neighborhood Assistance Program

The total neighborhood assistance credits allowed during a fiscal year cannot exceed \$2.5 million. The Indiana Economic Development Corporation verifies donations made to qualified neighborhood assistance organizations. The Indiana Department



of Revenue tracks the donations from various business entities, allowing 50 percent of allowable donations as credits against adjusted gross income tax. The Department processed 5,303 tax credits for the fiscal year.

Bankruptcy Section

The Indiana Department of Revenue's bankruptcy section had a busy and productive year in fiscal year 2006. The changes in the new bankruptcy code that went into effect on Oct. 17, 2005, played a big part in the increase of bankruptcy filings throughout Indiana and the entire nation.

A total of 3,590 bankruptcy claims were filed by the 14 tax analysts in the bankruptcy section in 2006. 10,413 payments were received and accounted for collection of \$23,951,825 on bankruptcy cases.

In all, 8,037 Chapter 7 Asset, Chapter 13 and Chapter 11 claims were filed with net assessments totaling \$104,979,939. There were also 2,875 claims that were amended due to returns being filed.

The bankruptcy section had a total of 167,110 pieces of incoming and outgoing correspondence. The bankruptcy section generated 17,283 pieces of outgoing mail which included faxes and memos to the Attorney General's office, letters and e-mails to taxpayers, attorneys and trustees, and received 149,827 pieces of incoming correspondence from these various outside sources as well as interdepartmental contacts.

As of July 2, 2006, the bankruptcy section had 7,164 active Chapter 7 Asset, Chapter 11 and Chapter 13 cases. The bankruptcy section also closed 4,377 files that were either discharged or dismissed by the bankruptcy court.

Individual/Withholding Tax Operation

The individual income tax section's purpose is to identify and pursue nonfilers, as well as to verify the accuracy of filed returns by utilizing information from the Internal Revenue Service, various Indiana state agencies, other state taxing agencies and anonymous informants. The standard compliance projects and findings for fiscal year 2006 are as follows:

- **Federal Audits**

Information is obtained from the Internal Revenue Service concerning agreed federal tax audit reports to the Department. If taxpayers do not amend their Indiana individual and corporate income tax returns to report the Indiana adjustments resulting from the federal modifications detailed in the audit findings, a tax assessment is generated. For this fiscal year, this section has billed 397 Individual taxpayers for \$595,453.

- **Federal/State Crosscheck**

The Department obtains magnetic tape information from the Internal Revenue Service disclosing adjusted gross income and exemptions reported on the federal returns. This file is compared to the state reported adjusted gross income and exemptions from our master file. Automatic billings are then generated for any state and county tax due on the differences. This project resulted in 6,836 taxpayers being assessed for an amount of \$9,198,351.

- **Individual Desk Examinations**

Individual desk examinations are performed based on anonymous sources or submissions from other divisions within the Department. The examination may consist of verifying income reported, credits/deductions taken, or the amount of refund requested. Individual desk examinations resulted in 12 assessments totaling \$20,023.

- **Riverboat Project**

The Department of Revenue received information from Indiana riverboat companies of the taxpayers who won money on the riverboat for tax years 2001 and 2002. This information was sorted and letters were sent to nonresident taxpayers who had not filed a return with Indiana to report this income. (As of July 1, 2002, Indiana state tax was automatically withheld from winnings over \$1,200.) After sending out approximately 7,000 letters, this section has processed more than \$355,150 in this fiscal year.



Nonprofit/Charity Gaming/Fiduciary Taxes

As of July 1, 2006, the administration of charity gaming transferred to the Indiana Gaming Commission. During the 2006 General Assembly, Indiana legislators voted to transfer the licensing, regulation and enforcement of charity gaming from the Indiana Department of Revenue to the Indiana Gaming Commission.

A total of \$3,414,275 in gaming fees were collected from the 2,434 gaming licenses issued. Civil penalties were collected in the amount of \$62,134.

During fiscal year 2006, the charity gaming section conducted educational/training seminars in Clarksville, Fort Wayne, Indianapolis, Jasper, Lafayette, Michigan City and Richmond. Some of the topics covered included:

- Legislative changes for Charity Gaming
- Revised Publication 2
- Charity-game nights
- 60/60 law
- *Bookkeeping – how it affects your organization*
- Illegal machines
- Revised forms, including CG-8 and CG-21
- Duck races

Nonprofit Section

The nonprofit section processed 1,265 NP20A Nonprofit Organization Applications for Sales Tax Exemption. The nonprofit section collected \$3,484 from IT-20NP Nonprofit Organization Unrelated Business Income Tax returns.

Fiduciary Tax Section

The fiduciary tax section processed 64,518 fiduciary returns for fiscal year 2006, representing a total of \$26,382,189 in taxes collected.

Last year, the fiduciary tax section staff worked with the Department's information technology programmers to convert and update the fiduciary tax database from a FoxPro program to a Visual Basic 6 Software Application on the server. This change has allowed for greater efficiency in processing, researching and editing functions in the section.

Consumer Use Tax, Utility/Trust/Fuel/Sales Refunds

10,953 applications for utility sales tax exemptions were received in FY 2006. More than 92 percent of the applicants qualified for a full (100 percent) exemption on their purchases of public utility services. These applicants were primarily government, nonprofit organizations and companies whose use of the energy was predominately for an exempt purpose.

Approximately 497 business entities, such as restaurants and industrial processors, received less than a 100-percent utility exemption. Companies qualifying for a partial exemption must pay sales tax on their utility bills to their suppliers and then file annual refund claims for exempt percentage allowed. Another 307 applications were denied an exemption on the requested utility service as a result of desk examinations.

Fuel Tax Refunds

3,300 fuel tax refund claims were examined during the year. These claims were filed by government entities, companies and individuals who paid gasoline tax and special fuel tax on fuel subsequently used in an exempt manner.

Trust Tax Refunds

A total of 3,586 trust tax refund claims for \$41,638,279 were received. Of these, 79 percent, or 2,844, totaling \$18,389,216, were reviewed. These resulted in adjustments of \$8,035,217. 309 claims were forwarded to the audit division for review. Another 433 were forwarded to other areas (withholding, corporations or individual) for consideration.



Audit Division Statistical Study

The Audit Division Statistical Study addresses the requirements set forth by IC 6-8.1-14-4 (2). The information is based on 100 percent of the audits completed, taxpayers assisted and special projects conducted during fiscal year 2006.

See Page 24 for an index of exhibits and charts included.

- Taxpayers served in district offices, p. 19
- Gross Income Tax Violations, p. 19
- Sales/Use Tax Violations, p. 20
- Corporate Adjusted Gross Income Tax Violations, p. 20
- Dollar Amounts of Tax Assessed, p. 20
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- Special Tax Violations, p. 22
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- Number of Years in the Audit Period, p. 23
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Taxpayers Served in District Offices

Taxpayer assistance is available in all district offices. Each office has a taxpayer assistance supervisor and assistant taxpayer supervisor who perform taxpayer-service functions, as well as other office-support responsibilities. Each office has at least one field investigator who supports taxpayer assistance and performs collection functions in the district. Contract employees are available throughout the year to support taxpayer assistance.

The "Taxpayer Assistance Report-Fiscal Year 2006" (Exhibit A) provides the number of taxpayers assisted (in person and by telephone) and the amount of money collected and assessed in each office through the taxpayer-assistance program. Exhibit A reveals that during fiscal year 2006, district offices assisted 154,105 taxpayers in person and 163,073 taxpayers through telephone contact. Total taxpayers served through the district offices were 317,178. The district office in Clarksville served 28,141 taxpayers in person, the highest number of any district office. The Fort Wayne district office served 26,243 taxpayers in person, the second highest total.

The Fort Wayne district office served 27,849 taxpayers by telephone while the Clarksville district office served 25,129 taxpayers by telephone. This was the highest number of telephone contacts among the district offices, totaling 32-percent of total taxpayer telephone contacts. The Fort Wayne district office served a total of 54,092 taxpayers by telephone and walk-in assistance, while Clarksville served 53,270 taxpayers by telephone and walk-in assistance.

"Field Auditors Taxpayer Assistance/Special Projects" (Exhibit B) provides the number of hours field auditors devoted in the district offices to assist taxpayers and conduct special projects. The exhibit reveals that 6,261 auditor hours were channeled in this direction.

Gross Income Tax Violations

The most-frequently violated gross-income-tax rule in the 2006 study is 45 IAC 1.1-2-4. Rule 2-4 defines taxable high-rate income of utilities, display advertising, sale of real estate, rentals and extension of credit. This rule accounted for 26 (16.77 percent) violations of gross-income-tax rules in the 2006 study. Rule 2-4 was the most violated in the 2005 report, with 13.91 percent. Rule 45 IAC 1.1-2-4 and Rule 45 IAC 1.1-2-5 (defined below) were equally rated in the 2004 report, with each rule accounting for 26 (14.69 percent) of violations.

Ranking second in gross-income-tax violations for 2006 was 45 IAC 1.1-2-5. Rule 2-5 defines gross income derived from providing services within Indiana. Violations (19) of Rule 2.5 accounted for 12.26 percent of all violations of the gross income tax rules in the 2006 statistics. Rule 2-2 ranked second in the 2005 study accounting for 11.92 percent of violations. Rule 2-2 defines taxable low-rate gross income of retail and wholesale sales, display advertising, dry cleaning and laundry service, rental of water softening equipment, rental of rooms, lodging, booths and similar accommodations and commercial printing. Rule 2-2 and Rule 3-3 tied for second in violations in the 2004 report with each Rule accounting for 11.30 percent of violations. Rule 3-3 defines the interstate commerce exemption as applied to gross receipts.

Ranking third for the 2006 study with 17 (10.97 percent) infractions of the gross-income-tax rule violations is Rule 45 IAC 1.1-2-2.



(This rule is defined above.) Rule 2-1 was the third-most-frequently violated rule in 2005 and 2004 with 10.60 percent and 5.08 percent respectively. Rule 2-1 defines Indiana source income.

Sales/Use Tax Violations

The most-frequently violated sales and use tax rule was 45 IAC 2.2-3-20. Rule 3-20 states that if the seller of tangible personal property for storage, use or consumption in Indiana fails to collect the appropriate tax, the purchaser of such property must remit tax directly to the Department. This rule produced 777 violations (18.07 percent) of the sales and use tax infractions. In the 2005 study, Rule 3-20 accounted for 16.71 percent of sales and use tax infractions and also ranked first. This rule also ranked first in the 2004 study accounting for 12.28 percent of sales and use tax violations.

The second-most-frequently violated sales and use tax rule was 45 IAC 2.2-3-4. Rule 3-4 imposes use tax on "tangible personal property, purchased in Indiana, or elsewhere in a retail transaction, and stored, used or otherwise consumed in Indiana...unless the Indiana state gross-retail tax (sales tax) has been collected at the point of purchase." This rule accounted for 557 infractions or 12.95 percent of sales and use tax statute violations. Rule 3-4 ranked second in the 2005 study with 383 infractions (11.64 percent). The second-most violated sales and use rule in 2004 was 45 IAC 2.2-3-4 (11.38 percent).

The third-most violated rule for the 2006 fiscal year was 45 IAC 2.2-5-8. Rule 5-8 clarifies sales and use tax by providing examples of taxable and nontaxable sales of manufacturing machinery, tools and equipment used in direct production and other activities. Failure of taxpayers to comply with this rule accounted for 368 or 8.56 percent of the sales and use tax infractions. Rule 5-8 ranked third in the 2005 study with 308 (9.36 percent) of infractions. Rule 5-8 ranked third in the 2004 study with 195 (9.28 percent) infractions.

Corporate Adjusted Gross Income Tax Violations

Corporate taxpayers violated adjusted gross income Rule 45 IAC 3.1-1-2 more than any other rule. This rule defines gross income for Indiana residents filing individual returns as all income defined by Section 61 of the Internal Revenue Code. Violations (82) of this rule accounted for 17.19 percent of the total violations in the 2006 study. Rule 1-2 ranked first in the 2005 study with 64 (15.27 percent) of total adjusted gross income violations. Rule 1-8 (defined below) was the most violated rule in the 2004 study with 40 (15.81 percent) infractions.

The second-most-frequently violated adjusted gross income rule for 2006 was 45 IAC 3.1-1-8. Rule 1-8 states that taxable income as defined in the Internal Revenue Code is modified in several ways to arrive at Indiana adjusted gross income. Violations (75) of this rule accounted for 15.72 percent of all adjusted gross income tax rules. Rule 1-1 (defined below) ranked second in the 2005 study accounting for 58 (13.84 percent) of total violations. Ranking second in the 2004 report was 45 IAC 3.1-1-9 (net operating loss deduction) comprising 10.67 percent of violations.

Rules 45 IAC 3.1-1-1 and 45 IAC 3.1-1-97 were equally ranked for third with 68 (14.26 percent) infractions in the 2006 study. Rule 1-1 defines adjusted-gross income as noted in Internal Revenue Code Section 62. Rule 1-97 defines withholding agents and their responsibility for remitting tax to Indiana. 45 IAC 3.1-1-8 (defined above) ranked third in the 2005 study with 12.89 percent of infractions. The 2004 study revealed 45 IAC 3.1-1-97 ranked third with 26 (10.28 percent) of violations.

Amounts of Tax Assessed

Exhibits C, D and E display the amount of assessments (refunds) of the gross-income tax, sales tax and adjusted-gross-income tax administrative rules, respectively. "Total assessments" for any tax type represent gross assessments less amounts refunded.

The amount assessed or refunded for each of the most frequent violations and the percentage of the amount to total net assessments are presented as follows:



Gross Income Tax—Exhibit C:

	Amount Assessed	Percentage of All Assessments
45 IAC 1.1-2-4	\$2,850,438	10.99%
45 IAC 1.1-2-5	\$16,616,716	64.06%
45 IAC 1.1-2-2	\$968,441	3.73%

Sales/Use Tax—Exhibit D:

	Amount Assessed	Percentage of All Assessments
45 IAC 2.2-3-20	\$2,196,786	16.54%
45 IAC 2.2-3-4	\$609,250	4.59%
45 IAC 2.2-5-8	\$3,122,478	23.51%

Corporate Adjusted Gross Income Tax—Exhibit E:

	Amount Assessed	Percentage of All Assessments
45 IAC 3.1-1-2	\$462,167	1.99%
45 IAC 3.1-1-8	\$3,970,518	17.13%
45 IAC 3.1-1-1	\$351,603	1.52%
45 IAC 3.1-1-97	\$366,796	1.58%



Industry /Business Most Frequently In Violation

Gross Income Tax

Taxpayers engaged in manufacturing most frequently violated the gross-income-tax rules. This group committed 45 violations, or 29.03 percent of the total violations. The gross-income-tax rule most-frequently violated by this group of taxpayers is 45 IAC 1.1-2-4 (eight violations). Rule 2-4 defines high-rate income.

The second-largest number of gross-income-tax violations was committed by taxpayers in information, publishing, telecommunications, finance, rental, insurance, real estate, leasing and professional services group. This group committed 31 infractions, or 20 percent of the total violations for 2006. The most-frequently-violated rules of this group were 45 IAC 1.1-2-1 and 45 IAC 1.1-2-4 (4 infractions each). Rule 2-1 defines Indiana source income and Rule 2-4 defines high-rate income.

Sales and Use Tax

For the 2006 reporting period, wholesale, retail and transportation businesses accounted for the most infractions. They accounted for 750 violations, or 17.44 percent of the total sales and use tax violations. The most-frequently violated rule by these taxpayers was 45 IAC 2.2-3-20 that states if a seller of tangible personal property for storage, use or consumption in Indiana fails to collect the appropriate tax, the purchaser of such property must remit tax directly to the Department.

Repair, personal service and other service businesses had the second-most frequency of violations for the sales and use tax rules. The 690 violations committed by this group represent 16.05 percent of the total violations. The rule most-frequently violated by this group was 45 IAC 2.2-3-20 defined above.

Adjusted Gross Income Tax

Public administration with 128 infractions was the most-frequent violator of adjusted gross-income-tax rules. This figure represents 26.83 percent of the total adjusted gross-income-tax violations. Adjusted gross income for individuals, defined by 45 IAC 3.1-1-2, accounted for the most infractions in this class.

The wholesale, retail and transportation businesses were ranked second in violation of the adjusted gross income rules. They committed 78 infractions, or 16.35 percent of the adjusted gross income tax violations. 45 IAC 3.1-1-8 had the most infractions by this group. Rule 1-8 discusses modifications of federal adjusted gross income in determining Indiana adjusted gross income.

Special Tax Violations

Exhibit G provides the special tax assessments and refunds by citation.

Article VIII (citation R800 on Exhibit G) of the International Fuel Tax Agreement (IFTA) was the most frequently violated special tax item in the study. It specifies the taxable event is the consumption of motor fuels in the propulsion of qualified motor vehicles, except fuel consumed that is exempt from taxation by a jurisdiction. All motor fuel acquired that is normally subject to consumption tax is taxable unless the licensee provides proof to the contrary. Article VIII was violated 296 times and yielded \$850,736 in net assessments for the state of Indiana. This represents 26.59 percent of total violations and 20.51 percent of net assessments. Article VIII was the most-violated special-tax citation in the 2005 and 2004 studies. The 2005 study had 235 infractions (\$327,854 net assessments) and 2004 had 182 infractions (\$487,571 net assessments).

Article X (citation R1000 on Exhibit G) of the International Fuel Tax Agreement (IFTA) was the second-most-frequently violated section of the special tax statutes. This Article discusses how taxpayers can obtain credit for tax previously paid on purchases of fuel at the pump. It also lists the records needed to substantiate the refund request. This article was violated 280 times accounting for 25.16 percent of the total violations. These violations resulted in net refunds of \$306,823. Article X had the second most infractions in the 2005 and 2004 special tax citations. The 2005 study showed 221 infractions with \$162,948 net assessments while 2004 showed 180 violations with \$57,386 net refunds.

The taxpayer group most frequently in violation of the special tax statutes and IFTA Articles for 2006 was the wholesale, retail and transportation industries. This group committed 810 violations accounting for 72.78 percent of the total infractions. Article VIII



of the International Fuel Tax Agreement was most frequently violated by the wholesale, retail and transportation industries. The 2005 statistics showed the repair, personal and other services industries with the most violations (432). For 2004, the wholesale, retail and transportation industries ranked first with 360 violations.

Miscellaneous Code Violations

Exhibit F provides the assessment amounts for the following:

- Financial Institutions Tax
- Tax Administration
- Food and Beverage Tax
- Innkeeper's Tax
- Charity Gaming

A review of the miscellaneous code violations data reveals that 45 IAC 15-5-1 was violated 18 (14.06 percent) times in the 2006 study. These violations yielded \$805,271 in net assessments. Rule 5-1 discusses issuing notices of assessment. In the 2005 study, 45 IAC 15-9-2 (which discusses statute of limitations for refunds) produced 12 (14.63 percent) infractions. IC 6-8.1-4-2 (discusses examination of taxpayer records) was the most violated rule in the 2004 study with 16 (12.12 percent).

45 IAC 15-4-1 was the second-most violated rule in this category in 2006. It yielded a total of \$195,690 in assessments. Rule 4-1 discusses access to records for examination. Eleven rule violations accounted for 8.59 percent of the total infractions in this category. Rule 4-1 was the second-most violated miscellaneous rule in the 2005 study accounting for \$47,384 in net refunds. The 2004 study showed Rule 9-2 (statute of limitations for refunds) as having the second most infractions with 15 (\$1,369,297 net refunds).

The arts, entertainment, recreation, food service and accommodation industries committed the most infractions under the miscellaneous citations in 2006 with 28 (21.88 percent). The industry ranked second for the 2006 study was the information, publishing, telecommunications, finance, rental, insurance, real estate, leasing and professional services industries with 26 (20.31 percent) infractions.

The information, publishing, telecommunications, finance, rental, insurance, real estate, leasing and professional services industries ranked first in the 2005 study with 26 (31.71 percent) errors. In the 2005 study, repair, personal services and other services industries ranked second with 24 (29.27 percent) errors.

Number of Years in the Audit Period

The audit period averages three years.

Use of Professional Tax Preparation Assistance

The services of professional preparers were used in the preparation of 75 percent of the corporate income tax returns and 11 percent of the sales tax returns. Statistics show that 26 percent of individuals use a professional preparer to complete the returns.

Filing of Appropriate Tax Returns

Rule 45 IAC 3.1-1-92 (Exhibit E) requires qualifying corporations to make estimated tax payments. Taxpayers in violation of this rule either failed to file estimated income tax returns or failed to remit the appropriate amount of tax. For the fiscal years ending in 2004, 2005 and 2006, no activity was recorded. The 2003 study indicated eight violations of this rule, resulting in assessments in the amount of \$12,863 and refunds totaling \$110,617.

Indiana Code 6-8.1-10-2.1 (Exhibit F) revealed no violations during the 2006 study period. This section specifies the penalty to be imposed if a taxpayer fails to file an appropriate return or pay the full amount of tax due. Violations of this section in the 2005 and 2004 studies were zero.



EXHIBITS

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EXHIBIT A
Taxpayer Assistance Report - Fiscal Year 2006
Audit Division District Offices

	South Bend	Fort Wayne	Lafayette	Kokomo	Muncie	Terre Haute	Bloomington	Columbus	Clarksville	Evansville	Merrillville	Totals
Walk-in Assistance	8,518	26,243	14,487	12,800	7,568	7,017	9,539	20,491	28,141	12,675	6,626	154,105
Telephone Assistance	8,294	27,849	11,466	10,748	12,449	11,462	11,222	18,860	25,129	13,250	12,344	163,073
Totals	16,812	54,092	25,953	23,548	20,017	18,479	20,761	39,351	53,270	25,925	18,970	317,178
Collected/ Assessed	\$5,344,089	\$4,381,078	\$3,361,298	\$9,456,868	\$4,515,366	\$5,729,792	\$9,382,354	\$8,232,995	\$11,369,254	\$5,898,484	\$10,036,428	\$77,708,006

EXHIBIT A CONTINUED

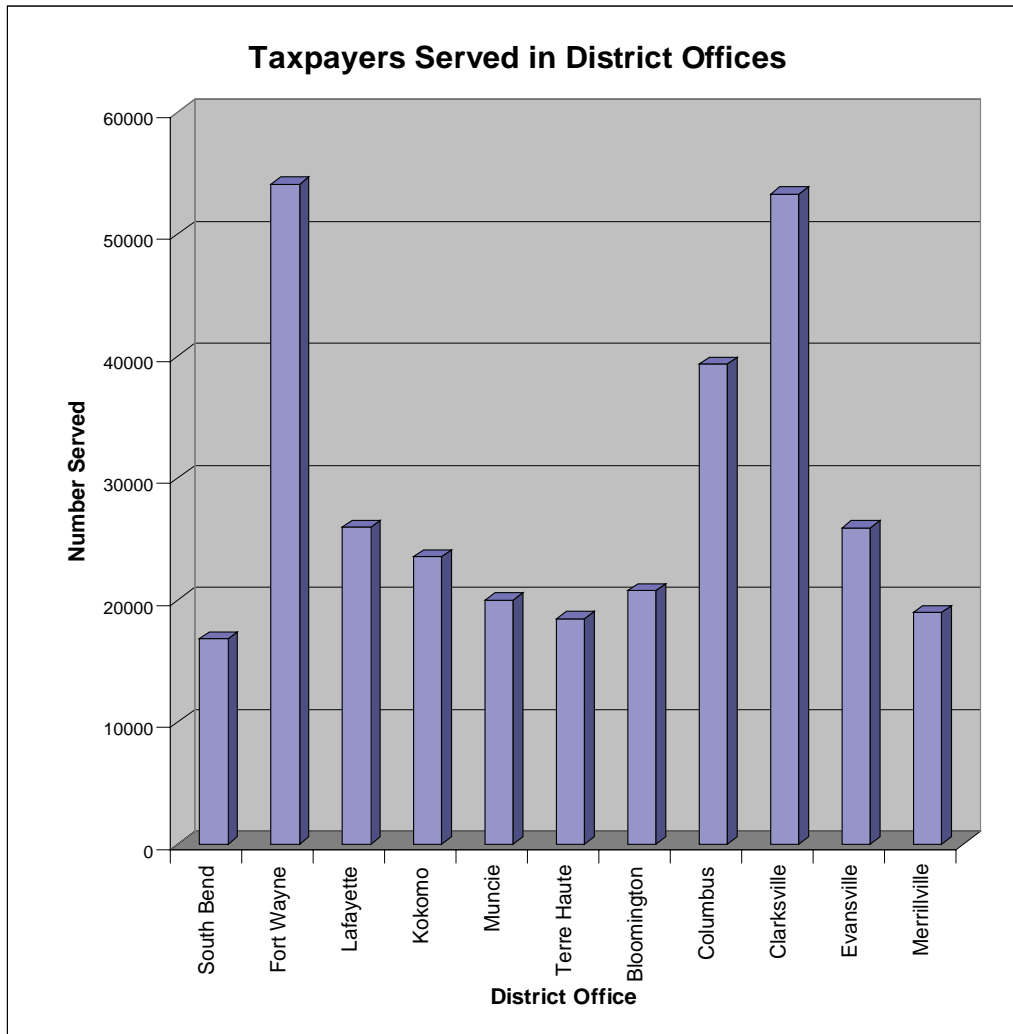


EXHIBIT B

Field Auditors Taxpayer Assistance/Special Projects

	Total Hours
South Bend, Fort Wayne, Merrillville	2,017
Lafayette, Kokomo, Muncie	755
Indianapolis*	41
Terre Haute, Bloomington, Columbus, Clarksville, Evansville	2,752
Out of State	0
Special Tax Auditors	696
Total	6,261

*Represents special project only. Taxpayer assistance provided by Taxpayer Services Division.

This field auditor information was gathered using data from regional reports indicating hours charged to Administrative Special Projects and Administrative Taxpayer Services.

Standard Industrial Codes

The Standard Industrial Codes (SIC) used in the Audit Division reports and exhibits are based on the North American Industry Classification System (NAICS). Refer to the following text to explain the industry classification numbering system.

Class	Explanation
1	Agricultural; Forestry
2	Mining; Oil and Gas Extraction; Construction
3	Manufacturing
4	Wholesale; Retail; Transportation
5	Information; Publishing; Telecommunications; Finance; Rental Insurance; Real Estate; Leasing; Professional Services
6	Education; Health Services
7	Arts; Entertainment; Recreation; Food Service; Accommodations
8	Repair; Personal Services; Other Services
9	Public Administration



EXHIBIT C
Dollars Assessed in 45 IAC Citations by Industrial Code
Gross Income Tax Audits

Sum of Results	SIC									
Citation	1	2	3	4	5	6	7	8	9	Grand Total
45 IAC 1.1-1-1			(8,675)		(245,146)					(253,821)
45 IAC 1.1-1-10		(63,556)	228,208		341,652	27,385	7,327	17,130	25,141	583,287
45 IAC 1.1-1-11						126,738				126,738
45 IAC 1.1-1-14					(5,072)					(5,072)
45 IAC 1.1-1-18						(125,411)				(125,411)
45 IAC 1.1-1-2							173	212,827		213,000
45 IAC 1.1-1-21					1,161			175,849		177,010
45 IAC 1.1-1-23			11,187							11,187
45 IAC 1.1-1-24		7,195	3,707		170					11,072
45 IAC 1.1-1-3					2,699,964					2,699,964
45 IAC 1.1-1-4							14,456			14,456
45 IAC 1.1-1-41			1,112							1,112
45 IAC 1.1-1-5				5,700						5,700
45 IAC 1.1-1-51			6,708							6,708
45 IAC 1.1-1-6			70,543					17,242		87,785
45 IAC 1.1-2-1			287,490		102,871		8,229	497,525		896,115
45 IAC 1.1-2-10					1,453,462			13,321		1,466,783
45 IAC 1.1-2-12								(198,511)		(198,511)
45 IAC 1.1-2-13				47,674	(72,443)			2,790	108,959	86,980
45 IAC 1.1-2-2		43,630	49,061	54,686	2,264		(5,902)	759,637	65,065	968,441
45 IAC 1.1-2-4			81,944	1,943,672	67,441	65,649	205,676	486,056		2,850,438
45 IAC 1.1-2-5			142,431	15,544,677	387,083	576,706	262,818	(296,999)		16,616,716
45 IAC 1.1-2-8			187,153	6,974	64,817			431		259,375
45 IAC 1.1-3-11			(5,622)							(5,622)
45 IAC 1.1-3-3			(701,731)	(42,064)	17,880					(725,915)
45 IAC 1.1-3-9							176			176
45 IAC 1.1-4-1				153,611	(32)					153,579
45 IAC 1.1-4-2			1,483							1,483
45 IAC 1.1-4-3			8,344							8,344
45 IAC 1.1-4-5			66,655		(319,888)			(2,295)		(255,528)
45 IAC 1.1-5-2							2,468			2,468
45 IAC 1.1-5-7	(23,093)									(23,093)
45 IAC 1.1-6-10							(24,799)			(24,799)
45 IAC 1.1-6-2			4,626		69,683				228,294	302,603
45 IAC 1.1-6-4			5,955							5,955
Grand Total	(23,093)	(12,731)	440,579	17,714,930	4,565,867	671,067	470,622	1,685,003	427,459	25,939,703

EXHIBIT C CONTINUED

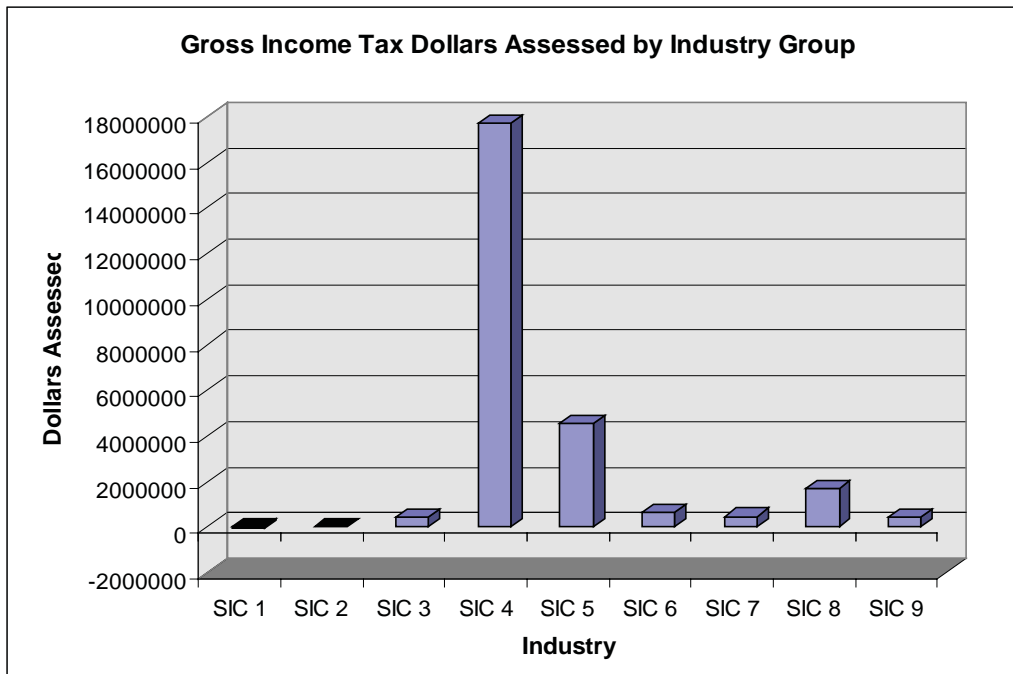
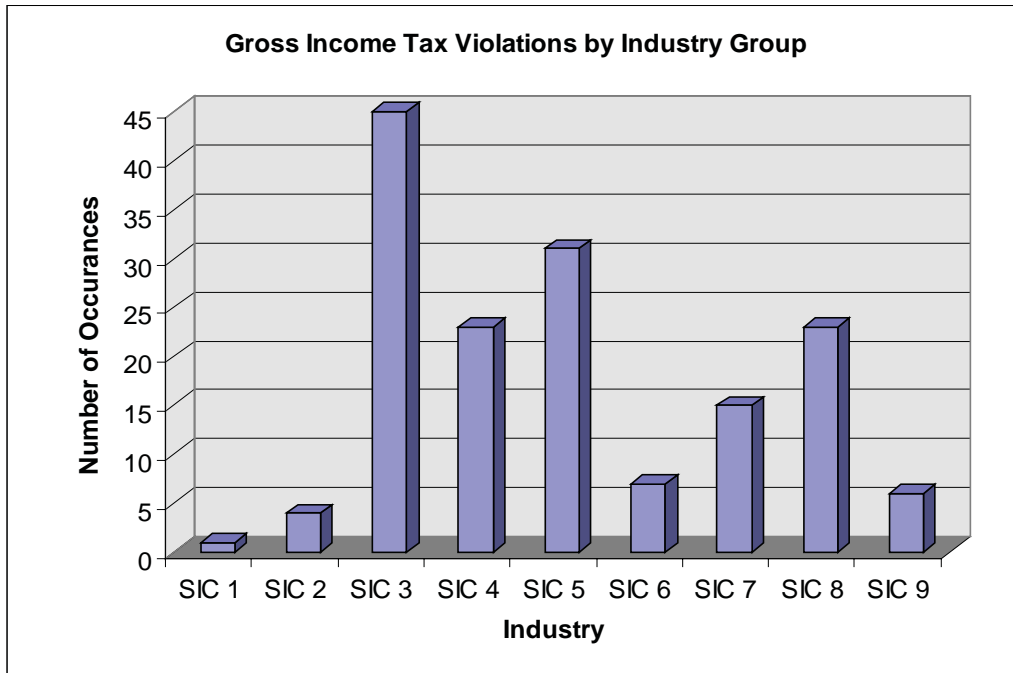


EXHIBIT D
Dollars Assessed In 45 IAC Citations by Industrial Code
Sales and Use Tax Audits

Sum of Results	Sic									
Citation	1	2	3	4	5	6	7	8	9	Grand Total
45 IAC 2.2-10-1						(4,753)				(4,753)
45 IAC 2.2-1-1	400	2,481	218,604	6,603	(6,434)	232	7,311	3,352		232,549
45 IAC 2.2-2-1		80,742	11,276	32,824	50,151		117,290	42,674	4,956	339,913
45 IAC 2.2-2-2	1,266	13,797	594,303	194,060	90,944	816	10,230	195,453		1,100,869
45 IAC 2.2-2-3			148				(1,176)	313		(715)
45 IAC 2.2-2-4								19,736		19,736
45 IAC 2.2-2-6				383						383
45 IAC 2.2-3-1			(6,895)	(2,250)						(9,145)
45 IAC 2.2-3-10	(74,864)							2,846		(72,018)
45 IAC 2.2-3-11			4,890	540						5,430
45 IAC 2.2-3-12	74,949	255,123	29,052		16,700			22,150	2,328	400,302
45 IAC 2.2-3-13	6,480	4,397	35,584	53,502	33,184		1,762	948	970	136,827
45 IAC 2.2-3-14					(983)		(6,208)	(435)		(7,626)
45 IAC 2.2-3-15	475	7,115	9,497	19,866	144,222		387	38		181,600
45 IAC 2.2-3-16				(28,778)	(74,636)					(103,414)
45 IAC 2.2-3-17					(4,236)				19,500	15,264
45 IAC 2.2-3-18		2,762		4,084	746		741			8,333
45 IAC 2.2-3-19					(258)					(258)
45 IAC 2.2-3-2		79		(1,279)	6,694					5,494
45 IAC 2.2-3-20	3,362	413,570	315,844	390,749	519,263	67,078	350,251	113,141	23,528	2,196,786
45 IAC 2.2-3-21				757	533		76,818			78,108
45 IAC 2.2-3-22				6,920						6,920
45 IAC 2.2-3-24		89	29,371					10,919		40,379
45 IAC 2.2-3-25				7,995	1,589			(16,187)		(6,603)
45 IAC 2.2-3-26		1,379								1,379
45 IAC 2.2-3-27		809	586	(36,836)	(3,643,683)		1,074	20		(3,678,030)
45 IAC 2.2-3-3								746		746
45 IAC 2.2-3-4	11,193	(57,530)	497,008	556,467	274,813	15,906	211,909	(1,013,263)	112,747	609,250
45 IAC 2.2-3-5		2,456	198	29,526	50,227			3,719	2,338	88,464
45 IAC 2.2-3-6							28,060		824	28,884
45 IAC 2.2-3-7		8,022								8,022
45 IAC 2.2-3-8	8,142	(62,495)	1,306	(59,816)	2,598			40,362		(69,903)
45 IAC 2.2-3-9	22,987	312,592	9,604	1,181	(41,470)	196	10,601	24,021	443	340,155
45 IAC 2.2-4-1	6,866	36,414	30,017	466,797	80,101	14,363	120,875	158,417	3,969	917,819
45 IAC 2.2-4-11		286	159		18,200		1,726	750		21,121
45 IAC 2.2-4-13		(1,591)	(263,327)	(5,420)	(71,208)		22,117	(70,460)		(389,889)
45 IAC 2.2-4-14				31				(756,639)		(756,608)
45 IAC 2.2-4-17					(185)					(185)
45 IAC 2.2-4-2		26,969	(3,968)	151,873	153,137		495	8,434		336,940
45 IAC 2.2-4-21	5,771	1,343	225				749	43,331		51,419
45 IAC 2.2-4-22	127,152	491,525	1,237	37,891	43,560			19,018		720,383
45 IAC 2.2-4-23		1,379								1,379
45 IAC 2.2-4-24		1,846					77			1,923
45 IAC 2.2-4-25		5,780	1,841							7,621
45 IAC 2.2-4-26	17,911	214,791	17,108	13,878	46,373			5,781		315,842
45 IAC 2.2-4-27	26,971	64,663	41,727	35,889	618,112	32,106	110,274	139,744	1,324	1,070,810
45 IAC 2.2-4-28					592		204			796
45 IAC 2.2-4-3		1,973	1,060	321	56		626	26		4,062
45 IAC 2.2-4-36		993								993
45 IAC 2.2-4-4		(11,309)			(40)			(351)		(11,700)
45 IAC 2.2-4-6				138	32					170
45 IAC 2.2-4-7					338					338
45 IAC 2.2-4-8		54		2,282	475		43,450	5,029	60,947	112,237
45 IAC 2.2-4-9			578	206						784
45 IAC 2.2-5-1	515									515
45 IAC 2.2-5-10			256,766	(227)	(488)		(861)	(21,822)		233,368
45 IAC 2.2-5-11								(344)		(344)
45 IAC 2.2-5-12	1,293	(8,082)	321,650	(524)	(139)	(533)	10,865	(22,732)		301,798
45 IAC 2.2-5-13	2,309	(6)								2,303

EXHIBIT D
Dollars Assessed In 45 IAC Citations by Industrial Code
Sales and Use Tax Audits

45 IAC 2.2-5-14		(1,704)	(76,727)	(784)	(5,229)	(1,412)	(851)	(34,551)		(121,258)
45 IAC 2.2-5-15	(2,816)	(40,998)	(7,516)	(529,327)	(43,066)	(161)	(14,919)	(47,118)	(12,222)	(698,143)
45 IAC 2.2-5-16			12,364	(13,196)	(38,483)	21,939	(748)	10,799	(91)	(7,416)
45 IAC 2.2-5-17								503,707		503,707
45 IAC 2.2-5-18								(25,207)		(25,207)
45 IAC 2.2-5-20				568	1,396					1,964
45 IAC 2.2-5-21				1,404						1,404
45 IAC 2.2-5-22	4,008									4,008
45 IAC 2.2-5-23							14,000		14,075	28,075
45 IAC 2.2-5-24		1,459								1,459
45 IAC 2.2-5-26	318	4,940	11,120	19,212	15,638	8,812	1,914	12,451	736	75,141
45 IAC 2.2-5-27		(140)						10		(130)
45 IAC 2.2-5-28						(3,618)		(208)		(3,826)
45 IAC 2.2-5-3				1,722					9,593	11,315
45 IAC 2.2-5-33					(1,104)	139				(965)
45 IAC 2.2-5-35					(23)		(409)	(361)		(793)
45 IAC 2.2-5-36					3,446	186,223		73,734		263,403
45 IAC 2.2-5-38			(118)							(118)
45 IAC 2.2-5-39				(1,504)			(6,211)			(7,715)
45 IAC 2.2-5-4	(113,851)							31,105	6,588	(76,158)
45 IAC 2.2-5-40			1,238	13,588	47	448	2,830	29	927	19,107
45 IAC 2.2-5-42			429	73	2,261		25,523			28,286
45 IAC 2.2-5-43					671		562,307	84,056	29,817	676,851
45 IAC 2.2-5-45			145	589	15,563	142	23,602	3,070		43,111
45 IAC 2.2-5-46					344					344
45 IAC 2.2-5-5					1,080		354			1,434
45 IAC 2.2-5-54		(12,419)						6,605		(5,814)
45 IAC 2.2-5-55						6,192	1,055	1,475	1,413	10,135
45 IAC 2.2-5-56			81					16		97
45 IAC 2.2-5-57							4,198	3,072		7,270
45 IAC 2.2-5-59							(1,573)			(1,573)
45 IAC 2.2-5-6				(41)				811		770
45 IAC 2.2-5-60					709					709
45 IAC 2.2-5-61	(5,881)		10,195	(34,643)	190			29,715	(350)	(774)
45 IAC 2.2-5-62				(35,281)	(606)			(7,509)	11,644	(31,752)
45 IAC 2.2-5-67		20,162			18,328		3,226			41,716
45 IAC 2.2-5-7								13,312		13,312
45 IAC 2.2-5-70	(521)		(9,332)							(9,853)
45 IAC 2.2-5-8	72,488	674,372	2,005,555	121,096	270,728	3,373	(5,118)	(23,167)	3,151	3,122,478
45 IAC 2.2-5-9		(14,707)	(371)							(15,078)
45 IAC 2.2-6-1		4,284	2,935	300,494	14,565		31,394	150,252		503,924
45 IAC 2.2-6-12				213,879	489,231			349,528	167,725	1,220,363
45 IAC 2.2-6-14		(938)	(22)	46,091	60,156		(22,955)	2,608		84,940
45 IAC 2.2-6-15					825					825
45 IAC 2.2-6-16					17,059			53,217		70,276
45 IAC 2.2-6-2					2,191					2,191
45 IAC 2.2-6-4			58,920							58,920
45 IAC 2.2-6-5			(77,751)					(28,757)		(106,508)
45 IAC 2.2-6-7					(11,354)		7,713	(11,888)		(15,529)
45 IAC 2.2-6-8	521	18,720	103,571	285,986	368,003	6,885	816,124	449,678	82,580	2,132,068
45 IAC 2.2-6-9				(22,001)						(22,001)
45 IAC 2.2-7-2		(24)								(24)
45 IAC 2.2-7-6				23,374					(127,500)	(104,126)
45 IAC 2.2-7-7				(418)				1,164		746
45 IAC 2.2-8-1								8,408		8,408
45 IAC 2.2-8-12	117	110,071	36,124	98,398	320,685		41,424	150,982	2,985	760,786
45 IAC 2.2-8-13							(2,910)			(2,910)
45 IAC 2.2-8-6					1,290					1,290
45 IAC 2.2-8-8			1,330							1,330
Grand Total	197,561	2,575,494	4,227,619	2,368,912	(186,579)	354,373	2,599,617	719,773	424,945	13,281,715

EXHIBIT D CONTINUED

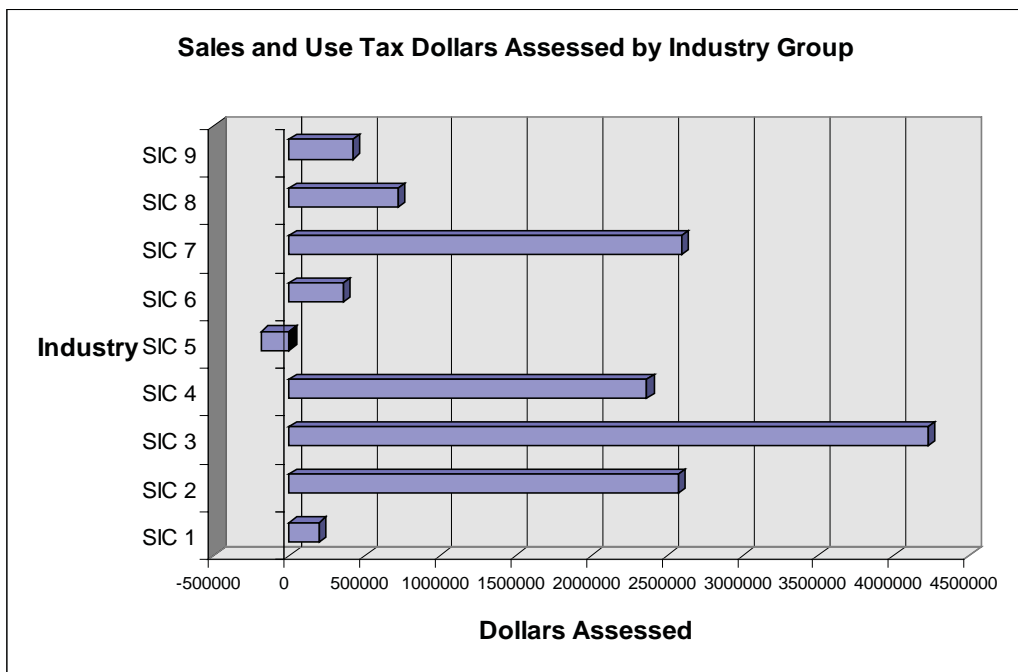
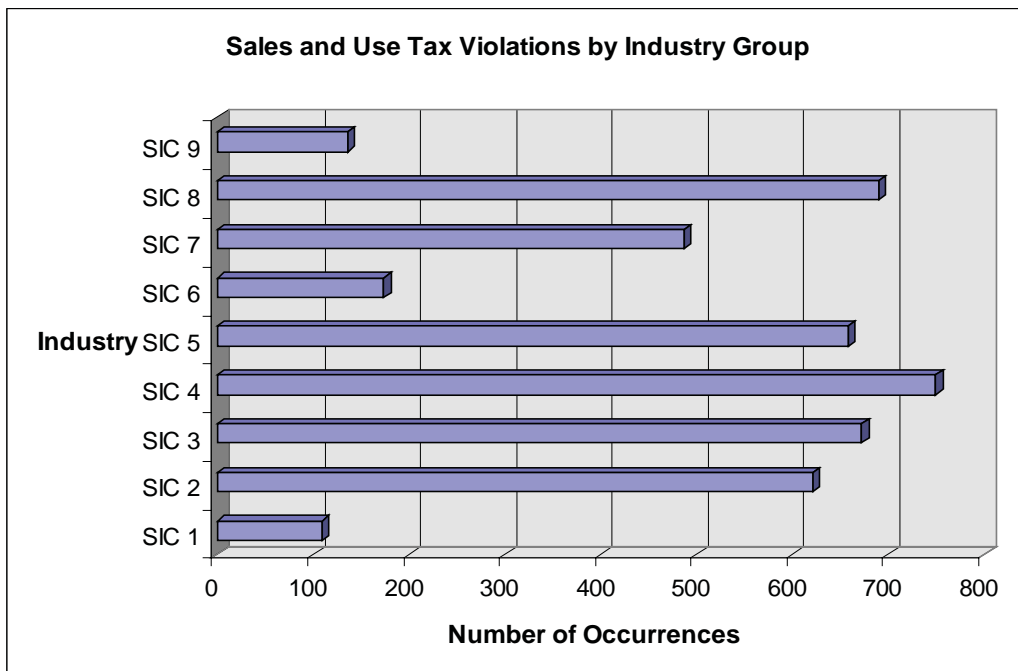


EXHIBIT E
Dollars Assessed in 45 IAC Citations by Industrial Code
Adjusted Gross Income Tax

Sum of Results	SIC									
Citation	1	2	3	4	5	6	7	8	9	Grand Total
45 IAC 3.1-1-1		19,715		8,464	993		39,708	149,961	132,762	351,603
45 IAC 3.1-1-105				1,336						1,336
45 IAC 3.1-1-108			1,269	3,679						4,948
45 IAC 3.1-1-109			93				1,325,895			1,325,988
45 IAC 3.1-1-111			467,000							467,000
45 IAC 3.1-1-153			448,872	(89,581)	116,395					475,686
45 IAC 3.1-1-2		43,206	14,123	38,115	37,993	10,131		114,805	203,794	462,167
45 IAC 3.1-1-25									40,117	40,117
45 IAC 3.1-1-28					3,484,113					3,484,113
45 IAC 3.1-1-29					6,663		5,125	1,106,763		1,118,551
45 IAC 3.1-1-3								1,393	(156)	1,237
45 IAC 3.1-1-30						1,650				1,650
45 IAC 3.1-1-36				1,201						1,201
45 IAC 3.1-1-37	3,646		384,156		47,922					435,724
45 IAC 3.1-1-39	(1,315)			820,606	138,353					957,644
45 IAC 3.1-1-40				(1,845)						(1,845)
45 IAC 3.1-1-41					13,424					13,424
45 IAC 3.1-1-43					3,000			1,530		4,530
45 IAC 3.1-1-44					3,000					3,000
45 IAC 3.1-1-45			408							408
45 IAC 3.1-1-48			385							385
45 IAC 3.1-1-49			253	197,684						197,937
45 IAC 3.1-1-5		(711)	4,478	16,811	1,666				716	22,960
45 IAC 3.1-1-50			(5,076)							(5,076)
45 IAC 3.1-1-51		22,000	(212)	(63,241)	3,382					(38,071)
45 IAC 3.1-1-52		181,731	692	(1,500,101)	3,382		(23,141)	7,627		(1,329,810)
45 IAC 3.1-1-53			(450,327)							(450,327)
45 IAC 3.1-1-55				(1,192)	197,110					195,918
45 IAC 3.1-1-56			149,000							149,000
45 IAC 3.1-1-6			(209,304)							(209,304)
45 IAC 3.1-1-62				425,379	1,565,076				39,202	2,029,657
45 IAC 3.1-1-64			598,368							598,368
45 IAC 3.1-1-65							22,974			22,974
45 IAC 3.1-1-66		5,801	1,391	682	69	8,037		18,809	25,604	60,393
45 IAC 3.1-1-67								62	195,933	195,995
45 IAC 3.1-1-68				2,071			23,275			25,346
45 IAC 3.1-1-72								10,903,332		10,903,332
45 IAC 3.1-1-76									308	308
45 IAC 3.1-1-8	277,982	600,568	(2,041,579)	3,076,132	1,271,059	8,905	32,897	24,508	720,046	3,970,518
45 IAC 3.1-1-9	(75,148)	(125,430)	(2,572,782)	(6,055)	(18,777)			44,934		(2,753,258)
45 IAC 3.1-1-94	2,386			65,684	155	(1,941)	18,015	(195)		84,104
45 IAC 3.1-1-97		110,822	28,312	41,124	39,709	34,660	73,490	35,701	2,978	366,796
45 IAC 3.1-2-1				1,394						1,394
45 IAC 3.1-2-2					58					58
45 IAC 3.1-3-1				1,279					490	1,769
45 IAC 3.1-3-2					116				586	702
45 IAC 3.1-3-3									6,711	6,711
45 IAC 3.3-1-3									(21,332)	(21,332)
Grand Total	207,551	857,702	(3,180,480)	3,039,626	6,914,861	61,442	1,518,238	12,409,230	1,347,759	23,175,929

EXHIBIT E CONTINUED

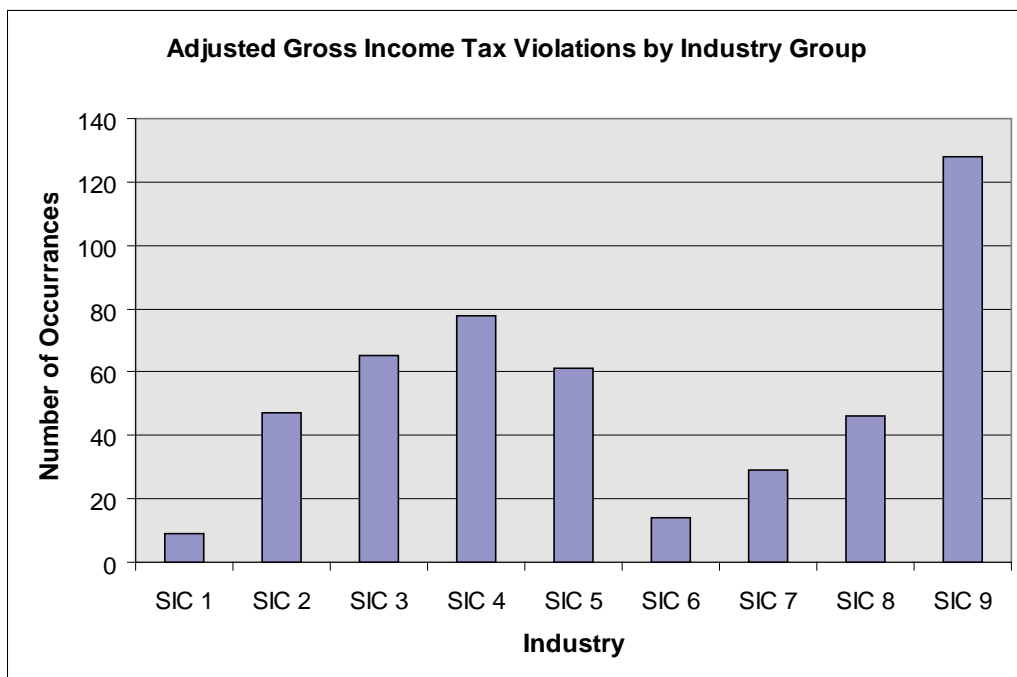
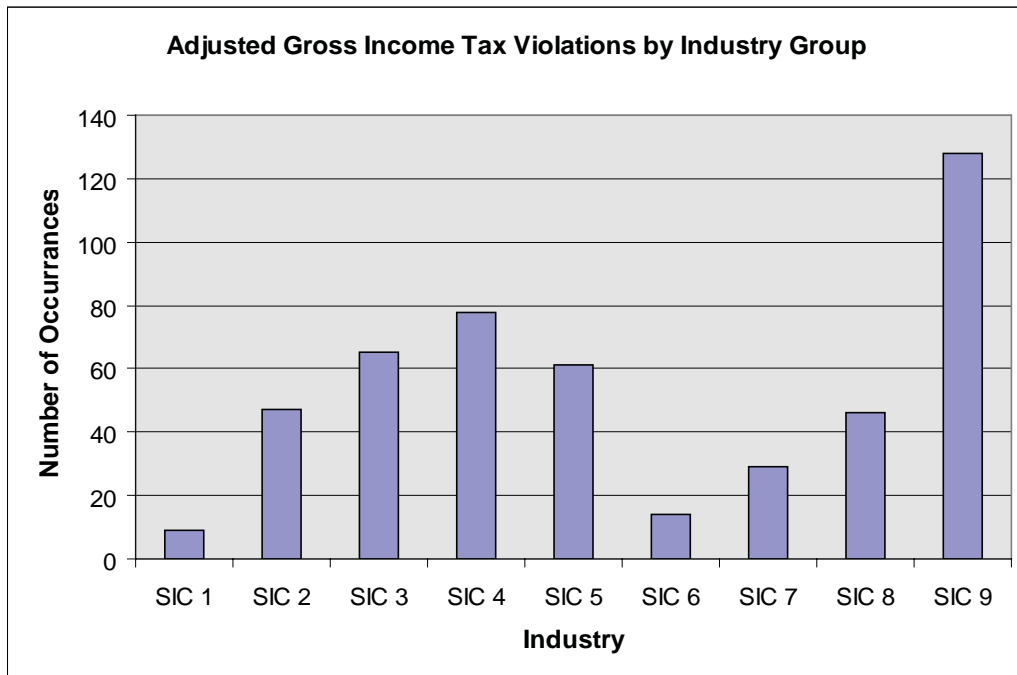


EXHIBIT F
Dollars Assessed for Miscellaneous Violations by Industrial Code

Sum of Results	SIC									
Citation	1	2	3	4	5	6	7	8	9	Grand Total
45 IAC 15-2-7					(19,335)					(19,335)
45 IAC 15-3-5				7,242						7,242
45 IAC 15-4-1		39,946	16,162	9,795	13,676		117,761	(1,650)		195,690
45 IAC 15-5-1	16	4,854		93,310	96,709			63,199	547,183	805,271
45 IAC 15-5-2									47,153	47,153
45 IAC 15-5-7					(19)			198,806		198,787
45 IAC 15-9-1		429	3,818				(19,252)	4,615		(10,390)
45 IAC 15-9-2			632,047	52,310				131,356		815,713
45 IAC 17-2-1					107,601			1,101,746		1,209,347
45 IAC 17-3-1					(43,706)					(43,706)
45 IAC 17-3-10					(33,516)					(33,516)
45 IAC 17-3-4						30,850				30,850
45 IAC 17-3-5					1,026,524					1,026,524
45 IAC 17-3-6					193,060					193,060
45 IAC 17-3-9					3,062					3,062
45 IAC 17-5-1					102,000					102,000
45 IAC 18-2-3							44,625	4,000		48,625
45 IAC 18-4-1								11,750		11,750
45 IAC 18-4-2								60,261		60,261
45 IAC 18-5-1								9,185		9,185
IC 13-20-13-7				3,183						3,183
IC 13-20-7				586						586
IC 6-2-3-1-13		9,603			4,404					14,007
IC 6-2-3-1-4		2,572								2,572
IC 6-2-3-1-9		5,149								5,149
IC 6-2-3-2							331,221			331,221
IC 6-2-3-3-10		142		9,258						9,400
IC 6-2-3-3-3				6,040						6,040
IC 6-2-3-3-4		112								112
IC 6-2-3-3-9		704								704
IC 6-2-3-5-2		(171)								(171)
IC 6-3-5-7-5		996						2,246		3,242
IC 6-5-5-2.1					(269,834)					(269,834)
IC 6-5-5-6-6									224	224
IC 6-8-1-5-4								28,760	39,033	67,793
IC 6-9-12-3				214,420		217	10,369			225,006
IC 6-9-18-3							305,139			305,139
IC 6-9-20-4					4,425		7,600		2,346	14,371
IC 6-9-21-4							(485)			(485)
IC 6-9-23							2,140			2,140
IC 6-9-23-4					5,382		16,700			22,082
IC 6-9-27-4				46,503						46,503
IC 6-9-35-9			646	3,016						3,662
IC 6-9-8-2							8,461			8,461
IC 6-9-9-2							7,275			7,275
Grand Total	16	64,336	652,673	445,663	1,190,433	31,067	831,554	1,614,274	635,939	5,465,955

EXHIBIT F CONTINUED

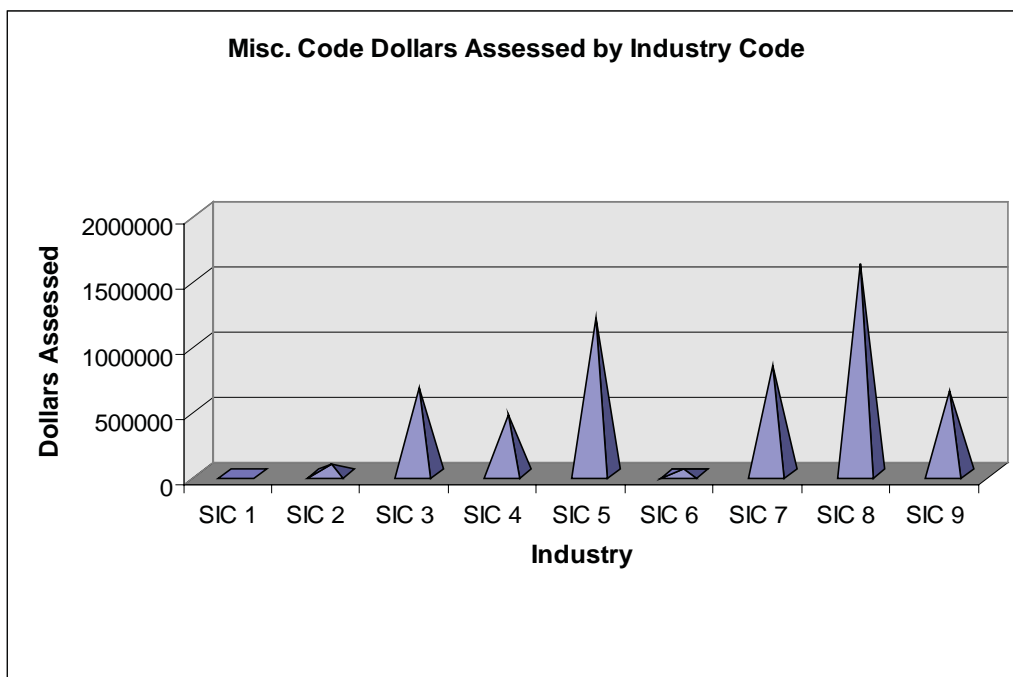
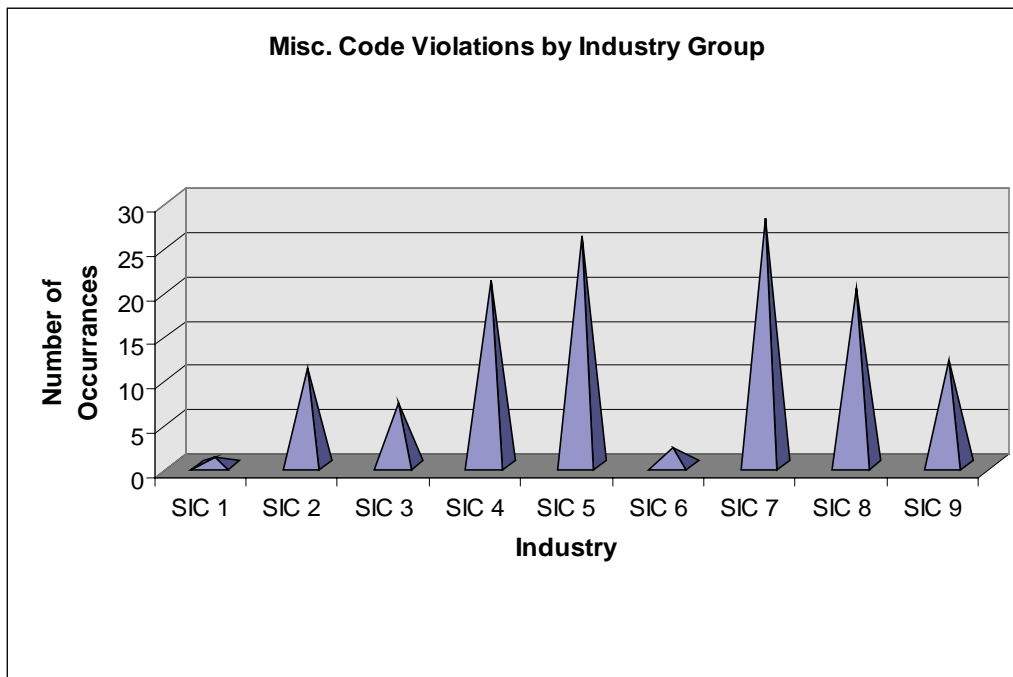
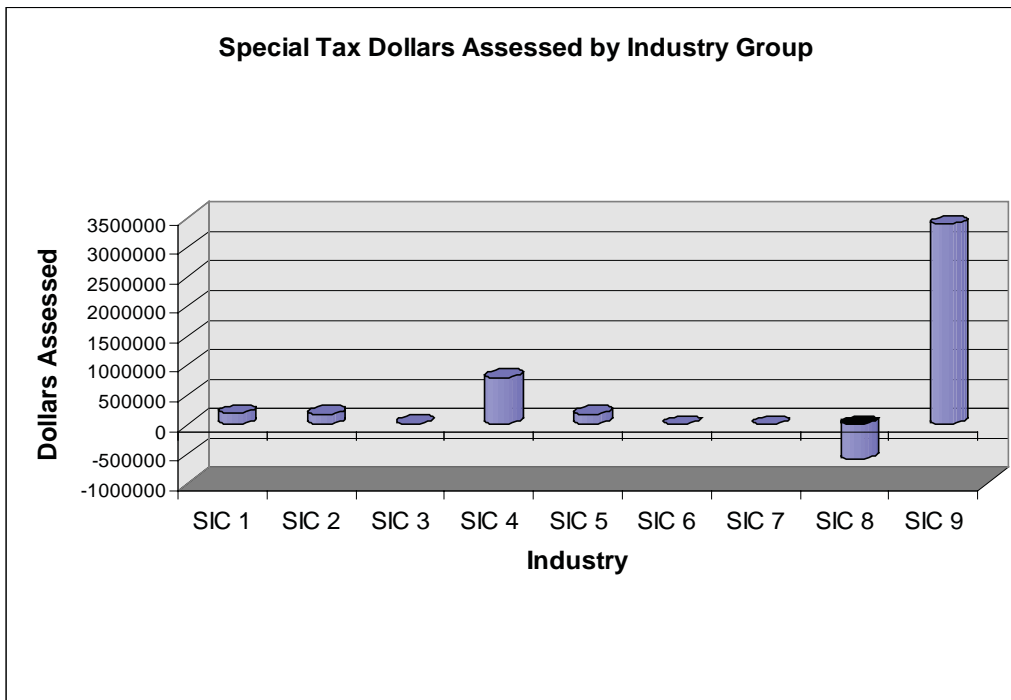


EXHIBIT G
Dollars Assessed in Code and Article Citations by Industrial Code
Special Tax Audits

Sum of Results	SIC									
Citation	1	2	3	4	5	6	7	8	9	Grand Total
A550		58		19,195						19,253
IC 16-44-2-18				3,556				(7,725)		(4,169)
IC 16-44-2-4				217						217
IC 6-6-1.1-201				50,359				(664,989)		(614,630)
IC 6-6-1.1-301				(10,160)						(10,160)
IC 6-6-1.1-502				173						173
IC 6-6-2.5-28				5,076						5,076
IC 6-6-4.1-4		1,163	111	3,371	637			10,031	3,092	18,405
IC 6-6-4.1-6		(478)	(66)	13,309	3,471			896	(1,263)	15,869
IC 6-6-4.1-9				2,355				8,629		10,984
IC 6-6-5.5-8	106	1,413	457	62,961	372		2	1,980	670	67,961
IC 6-6-9-7				3,392				971		4,363
IC 6-7-1-19	185,554			95,876	167,386			59,340	3,371,231	3,879,387
IC 6-7-2-7				2,827					964	3,791
IC 7.1-4-4-1			(590)				1,243			653
IC 8-2.1-20-7			60	7,450				20	70	7,600
IC 8-2.1-22-33				80						80
IC 8-2.1-22-39				0						0
IC 9-20-14				5,562						5,562
IRP ArtICle II-204		36		287						323
IRP ArtICle XV-1502	146	3,224	710	102,848	503			3,769	108	111,308
IRP ArtICle XVII-1700	58	(3,325)	307	16,638	295	(2)	6	1,008	1,370	16,355
R1000	(6,301)	(5,404)	4,212	(297,416)	863	7	62	(6,620)	3,774	(306,823)
R1200				64,762						64,762
R800	7,631	175,077	(1,988)	646,162	355	227	91	13,451	9,730	850,736
Grand Total	187,194	171,764	3,213	798,880	173,882	232	1,404	(579,239)	3,389,746	4,147,076

EXHIBIT G CONTINUED



Recommendations for Improving Taxpayer Compliance and Department Administration

2006 Legislation Affecting the Department of Revenue

Utility Services Use Tax

HB 1001 (July 1, 2006) IC 6-2.3-3-11 is added to the utility receipts tax to provide that furnishing utility services to an end user in Indiana regardless of whether the utility services are delivered through the pipelines, transmission lines, or property of another person, the taxpayer providing the utility service is or is not a resident of Indiana, or transaction is subject to a deduction under the mobile telecommunications sourcing act.

IC 6-2.3-5.5 (July 1, 2006) is added to impose the utility services use tax on the consumption of utility services that are billed after June 30, 2006. The tax is measured by the gross consideration received by the seller from the sale of the utility services, and is imposed at the rate of 1.4 percent.

Transactions are exempt from the utility services use tax if the transaction is subject to the utility receipts tax, the gross receipts from the transaction are not taxable under the utility receipts tax, the services are consumed for an exempt purpose under the utility receipts tax, or the services were consumed for the purpose for which a deduction is granted.

A person is entitled to a credit against the utility services use tax imposed on the retail consumption of utility services equal to the amount of utility services use tax paid to another state.

The Department shall establish procedures for the collection of the utility services use tax from users, including deposit and reporting requirements deposit dates and reporting dates. Failure of a person to comply with the procedures is subject to the penalties imposed under IC 6-8.1.

Any seller of utility services may elect to register with the Department to collect utility services use tax on behalf of persons liable for the tax imposed. The person will pay the tax to the registered seller and the seller will collect the tax as an agent for the state. The seller upon request of the consumer will issue a receipt to the consumer for the tax collected. In all other cases the person liable for the tax shall pay the tax directly to the Department.

If the Department assesses the tax against a person for the person's consumption of utility services, and the person has already paid the tax to the seller, the person may avoid the tax if the person can produce a receipt or other evidence that the person paid the tax to the seller.

IC 6-8.1-1-1 (July 1, 2006) is amended so that the utility services use tax is considered a listed tax for tax administration purposes.

SECTION 55 (Upon Passage) provides that the Department shall adopt temporary rules to implement the provisions of the utility services use tax, and the home energy assistance program sales tax exemption.

Streamlined Sales Tax Conforming Amendments

SB 258 (July 1, 2006) IC 6-2.5-1-11.5 is added to define a bundled transaction as two or more products that are distinct, identifiable and sold for one non itemized price.

IC 6-2.5-1-16.5 (July 1, 2006) is added to define direct mail as printed material delivered by United States mail to a mass audience or addresses on a mailing list. The sourcing for direct mail transactions is already defined but the term itself was not defined.

IC 6-2.5-1-20 (July 1, 2006) is amended to clarify that tobacco and tobacco products are not food or food ingredients.

IC 6-2.5-4-15 (July 1, 2006) is added to provide that a bundled transaction is a retail transaction for transactions occurring after Dec. 31, 2007.

IC 6-2.5-6-1 (July 1, 2006) is amended to provide that a Model 4 seller whose annual sales tax liability is less than \$1,000 only has to file and remit on one annual return.



IC 6-2.5-13-1 (July 1, 2006) is amended to provide that floral orders transmitted to another florist for delivery will be sourced to the florist that took the original order until Jan. 1, 2008.

Fireworks Public Safety Fee

HB 1099 (June 1, 2006) IC 22-11-14-12 is added to provide a public safety user fee of 5 percent on the retail sale of fireworks to be collected by the Department of Revenue and deposited in the state general fund.

IC 22-11-14-14 (June 1, 2006) is added to provide that an individual who is an individual retailer and has a duty to remit the public safety fee holds the public safety fee in trust for the state and is personally liable for the payment of the fee.

IC 22-11-14-15 (June 1, 2006) is added to require the fire prevention and building safety commission and the Department shall adopt rules to carry out this act.

SECTION 22 Non Code (Upon Passage) is added to require the Department to carry out the provisions of the fireworks bill by issuing written guidelines

Biennial Renewal of the Retail Merchant's Certificate

SB 362 (Jan. 1, 2007) IC 6-2.5-8-1 is amended to provide for the biennial renewal of the retail merchant's certificate. If the retail merchant is current in all his filings and remittances, the certificate will be renewed thirty days before the expiration at no cost to the retail merchant.

If a retail merchant is delinquent in remitting sales or use tax, the Department shall notify the retail merchant at least sixty days prior to the expiration of the certificate. The Department is prohibited from renewing the retail merchant's certificate if they are delinquent.

Non Code SECTION 12 (July 1, 2006) provides authority for the Department to adopt temporary rules to implement a staggered system of renewal for the retail merchant's certificate.

Use Tax Morton Buildings

IC 6-2.5-3-2 (July 1, 2006) is amended to provide that the use tax applies to a person who manufactures, fabricates, or assembles tangible personal property from materials either within or outside Indiana, and uses, stores, distributes, or consumes tangible personal property in Indiana. It eliminates the requirement that there be a retail transaction in order for the use tax to apply.

Sales Tax Exemption Recreational Vehicles

SB 106 (July 1, 2006) IC 6-2.5-5-39 is amended to provide that in the case of a transaction involving a cargo trailer or recreational vehicle, where the cargo trailer or RV will be titled or registered in a state or country that provides an exemption from sales, use, or similar taxes imposed on a cargo trailer or RV that is purchased in that state or country by an Indiana resident and will be titled or registered in Indiana. If the state or country does not provide the exemption for an Indiana resident the transaction in Indiana is not exempt from the sales tax.

The section also requires the Department to provide the information necessary to determine a purchaser's eligibility for the exemption claimed to retail merchants in the business of selling cargo trailers and RVs.

Sales Tax Exemption Home Heating Services

IC 6-2.5-4-5 (July 1, 2006) is amended to provide that a utility is not a retail merchant making a retail transaction when the utility sells services or commodities used as the principal source of heating or cooling in residential dwellings from July 1, 2006 through June 30, 2007 through programs administered by the state to supply home energy through the Low Income Home Energy Assistance Block Grant.

IC 6-2.5-5-16.5 (July 1, 2006) is added to provide that home energy assistance is exempt from the sales tax if the person acquiring the home energy acquires it after June 30, 2006 and before July 1, 2007.



SECTION 55 (Upon Passage) provides that the Department shall adopt temporary rules to implement the provisions of the utility services use tax, and the home energy assistance program sales tax exemption.

HB 1261 (July 1, 2006) IC 6-2.5-6-11 is amended to provide that a utility or other person who extends assistance to a heating assistance program may deduct from the retail merchant's sales tax payment an amount equal to the amount of assistance that was extended by the retail merchant to the heating assistance program.

Sales Tax Exemption for Motion Picture Equipment

HB 1380 (Jan. 1, 2007) IC 6-2.5-5-41 is added to provide a sales tax exemption for tangible personal property directly used in production of a motion picture or television show. The exemption expires on Dec. 31, 2008.

Sales Tax Bad Debt Deduction

IC 6-2.5-6-9 (Jan. 1, 2007) is amended to provide that the sales tax bad debt deduction is not assignable for transactions occurring after Dec. 31, 2006. The bad debt deduction is still assignable if the entity is part of the same affiliated group as the assignor.

HB 1327 (July 1, 2007) IC 6-2.5-6-9 is amended to provide that a sales tax bad debt deduction is not assignable unless the individual or entity is part of the same affiliated group as defined in Section 1504(a)(2) of the Internal Revenue Code, except that the ownership percentage shall be determined using 50 percent instead of 80 percent. The exception also applies to two or more partnerships that have the same degree of ownership as the affiliated group.

Passive Investment Company (PIC) Add Back

IC 6-3-1-3.5 (July 1, 2006) is amended to provide an add back of intangible expenses and any directly related intangible interest expenses that reduced the corporation's taxable income for federal income tax purposes. This provision applies for taxable years beginning after June 30, 2006.

IC 6-3-2-20 (July 1, 2006) is added to establish the guidelines and requirements for a taxpayer to add back the amount of any intangible expenses or directly related intangible interest expenses to the taxpayer's taxable income.

Definitions:

"Affiliated group" has the meaning set forth in Section 1504 of the Internal Revenue Code, except that the ownership percentage is determined by using 50 percent instead of 80 percent.

"Directly related intangible interest expenses" means interest expenses that are paid to, or accrued or incurred as a liability to, a recipient if the amounts represent income from making loans, and the funds loaned were originally received by the recipient from the payment of intangible expenses by the taxpayer, a member of the same affiliated group or a foreign corporation.

"Foreign corporation" means a corporation that is organized under the laws of a country other than the United States and would be a member of the same affiliated group as the taxpayer if the corporation were organized under the laws of the United States.

"Intangible expenses" means the following amounts to the extent the amounts are allowed as deductions in determining taxable income under Section 63 of the Internal Revenue Code. Expenses, losses and costs directly for, related to or in connection with the acquisition, use, maintenance, management, ownership, sale, exchange or any other disposition of intangible property. Also included in the term are royalty, patent, technical, copyright fees, licensing fees and other substantially similar expenses and costs.

"Interest expenses" means amounts that are allowed as deductions under Section 163 of the Internal Revenue Code.

"Makes a disclosure" means a taxpayer provides the following information regarding a transaction with of member of the same affiliated group or a foreign corporation involving an intangible expense and any directly related intangible interest expense; the name of the recipient, the state of domicile and the amount paid the recipient, a copy of federal Form 851, Affiliation Schedule and the information needed to determine the taxpayer's status under the exceptions that are allowed.

"Recipient" means a member of the same affiliated group as the taxpayer to which is paid an item of income that corresponds to an intangible expense or any directly related intangible interest expense.

"Unrelated party" means a person that is not a member of the same affiliated group.

Add Back of Deduction:

A corporation subject to the adjusted gross income tax is required to add to its taxable income intangible expenses and any directly related intangible interest expenses paid, accrued or incurred within one or more members of the same affiliated group or with one or more foreign corporations.

Exceptions to the Add Back of the Deduction:

There are eight exceptions to the add back and are expressed as follows:

1. The taxpayer and the recipient are both included in the same consolidated return or in the same combined return.
2. The taxpayer and the Department agree in writing to the use of an alternative method of allocation or apportionment under the adjusted gross income tax statute.
3. Upon request by the taxpayer, the Department determines that the adjustment otherwise required is unreasonable.

Other exceptions include that the taxpayer makes a disclosure, and can establish by a preponderance of the evidence that the following transactions did not have tax avoidance as a principal purpose:

1. The recipient regularly engages in transactions involving intangible property with one or more unrelated parties on terms substantially similar to those of the subject transaction.
2. The payment was received from a person or entity that is an unrelated party, and on behalf of that unrelated party, paid that amount to the recipient in an arm's length transaction.
3. The recipient paid, accrued or incurred a liability to an unrelated party during the taxable year for an equal or greater amount that was directly for, related to, or in connection with the same intangible property giving rise to the intangible expense.

The final two exceptions require the taxpayer to make a disclosure, establish by a preponderance of the evidence that the transaction did not have tax avoidance as a principal purpose, and that the transaction giving rise to the expenses were made at a commercially reasonable rate and at terms comparable to an arms length transaction.

1. The item of income corresponding to the intangible expenses and any directly related intangible interest expenses were included within the recipient's income that is subject to tax in another state or a country other than the United States that is the recipient's commercial domicile and that imposes a net income tax, a franchise tax measured by income, or a value added tax.
2. The recipient is engaged in substantial business activities from the acquisition, use, licensing, maintenance, management, ownership, sale, exchange, or any other disposition of intangible property, or other substantial business activities separate and apart from the business activities described above as evidenced by the maintenance of a permanent office space and an adequate number of full-time, experienced employees.

Intangible expenses or directly related intangible interest expenses shall be considered to be at a commercially reasonable rate or at terms comparable to an arm's length transaction if the if the expenses meet the arm's length standards of United States Treasury Regulation 1.482-1(b).

If the expense is determined not to be at a commercially reasonable rate or at terms comparable to an arm's length transaction, the add back required shall be made only to the extent necessary to cause the expenses to be at a commercially reasonable rate or at terms comparable to an arm's length transaction.

Transactions between the taxpayer and the recipient shall be considered as having Indiana tax avoidance as the principal purpose if there is not one or more valid business purpose that substantially sustains the transaction notwithstanding any tax benefits associated with the transaction, and the principal purpose of tax avoidance exceeds any other valid business purpose.

SECTION 53 (Upon Passage) provides that the provision to require the add back of intangible expenses does not affect the legitimacy or illegitimacy of deductions claimed by the taxpayer for taxable years beginning before July 1, 2006. Provides that the Department may adopt temporary rules to implement the intangible expense add back provisions.

Internal Revenue Code Update

IC 6-3-1-3.5 (Jan. 1, 2005) is amended to provide that the additional \$1,500 dependent child exemption is determined by Section 151(c)(1)(B) as in effect on Jan. 1, 2004.

IC 6-3-1-11 (Jan. 1, 2006) is amended to provide that references in the Indiana Code to the Internal Revenue Code and related regulations refer to the law and regulations in effect on Jan. 1, 2006.

Collections Procedure Changes

IC 6-3-4-8.1 (Jan. 1, 2007) is amended to provide that the Department can require a withholding agent to make periodic deposits of withholding taxes during the reporting period if the withholding agent is not withholding, reporting or remitting the proper amount of tax.

IC 6-8.1-5-1 (Jan. 1, 2007) is amended to provide that a letter of finding includes a supplemental letter of finding. Provide that a taxpayer has 45 days instead of 60 days to protest a proposed assessment. Provide that a taxpayer who disagrees with a letter of finding may appeal the decision to the tax court. The taxpayer must appeal within 60 days of the issuance of the letter of finding. Current law gives a taxpayer 180 days to appeal to tax court.

IC 6-8.1-8-2 (Jan. 1, 2007) is amended to require the Department to state on a demand notice the statutory authority for the Department to levy against a taxpayer's property held by a financial institution. Provide that the sheriff in a county where a warrant has been filed does not have the authority to release the warrant.

IC 6-8.1-8-3 (Jan. 1, 2007) is amended to require a county sheriff to return a tax warrant to the Department even if a payment plan is established by the sheriff, unless the sheriff's electronic data base regarding tax warrants is compatible with the Department's data base.

IC 6-8.1-8-14 (Jan. 1, 2007) is added to allow the Commissioner to declare an outstanding liability as uncollectible. However, any lien created by the outstanding liability remains in place.

IC 6-8.1-8-15 (Jan. 1, 2007) is added to allow the Department to levy on the unclaimed property of the apparent owner by filing a claim with the attorney general in accordance with procedures described in IC 32-34-1-36.

IC 6-8.1-9-2 (Jan. 1, 2007) is amended to provide that the Department will pay interest on a claim for refund or an amended return if the Department does not issue the refund within 90 days of the date that the refund claim is filed. Current law provides that interest will be paid from the date the tax was paid or the date the return is due, whichever is later.

IC 6-8.1-9-3 (Jan. 1, 2007) is amended to provide that IC 6-8.1-9 does apply to refund claims under the motor carrier fuel use tax.

Single Factor Sales Formula for AGI

IC 6-3-2-2 (Jan. 1, 2007) is amended to transition to a single factor formula based on sales for apportioning business income of corporations and non resident persons. The single factor formula will be fully implemented for taxable years beginning after Dec. 31, 2010.

Legislative Fix for Miller Brewing Decision

IC 6-3-2-2 (Jan. 1, 2007) is amended to provide that regardless of the f.o.b. point or other conditions of the sale, sales of tangible personal property are in this state if the property is delivered or shipped to a purchaser that is within Indiana.

Petition to Discontinue Filing Combined Return

IC 6-3-2-2 (Jan. 1, 2007) This section is amended to provide that a taxpayer filing a combined income tax return must petition the Department within 30 days after the end of the taxpayer's taxable year to discontinue filing a combined income tax return.

Income Tax Deduction for Property Tax Paid

SB 355 (Jan. 1, 2006) Non Code SECTION 22 is added to permit an additional deduction in 2006 against adjusted gross income for the payment of delayed property taxes payable in 2005. Delayed property taxes include the 2002, 2003 and 2004 assessment years where the taxpayer was not delinquent in remitting the property tax to the county treasurer when the property tax was paid in 2005.

EDGE for Retention Tax Credit

IC 6-3.1-13-15.5 (April 1, 2006) is amended to provide that an employer must have at least 35 employees to qualify for the EDGE for retention tax credit.



IC 6-3.1-13-18 (April 1, 2006) is amended to provide that the total amount of EDGE for retention credits that may be awarded in a year cannot exceed \$10,000,000.

Hoosier Business Investment Tax Credit

IC 6-3.1-26-8 (July 1, 2006) is amended to remove the Jan. 1, 2008 deadline for equipment used in motion pictures and audio productions to qualify for the Hoosier business investment tax credit.

IC 6-3.1-26-26 (July 1, 2006) is amended to extend the HBI tax credit until Dec. 31, 2011.

Biodiesel and Ethanol Tax Incentives

IC 6-3.1-27-8 and IC 6-3.1-27-9 (Upon Passage and Jan. 1, 2006) are amended to imply that the credit awarded by the Indiana Economic Development Corporation for biodiesel production and the credit for blending biodiesel can be awarded at an amount that is less than the statutory limit.

IC 6-3.1-27-9.5 (Jan. 1, 2005) is amended to increase the total amount of credits that may be awarded for biodiesel production, biodiesel blending and ethanol production from \$20,000,000 to \$50,000,000.

IC 6-3.1-27-10 (Jan. 1, 2006) is amended to provide that the \$0.01 per gallon credit available for selling blended biodiesel at retail is extended until Dec. 31, 2010.

IC 6-3.1-28-11 (Upon Passage) is amended to imply that the credit awarded by the Indiana Economic Development Corporation for ethanol production can be awarded at an amount that is less than the statutory limit. Increases the maximum amount of credits allowed for an ethanol production plant from \$3,000,000 to \$2,000,000 if the production is less than 60,000,000 gallons in a taxable year or \$3,000,000 if the production is greater than 60,000,000 gallons in a taxable year.

Coal Gasification Tax Incentives

IC 6-3.1-29-15 (Jan. 1, 2006) is amended to provide that an entity is qualified for the coal gasification income tax credit if the facility is dedicated to primarily serving Indiana retail electric utility consumers. This section also provides that the fluidized bed combustion technology tax credit is 7 percent of the taxpayer's qualified investment for the first \$500,000,000 invested, and 3 percent of the qualified taxpayer's investment that exceeds \$500,000,000.

IC 6-3.1-29-19 (Jan. 1, 2006) is amended to provide that 75 percent of the coal used in a fluidized bed combustion unit must be Indiana coal if the unit is not dedicated primarily to serving Indiana retail electric utility consumers.

Headquarters Relocation Tax Credit

IC 6-3.1-30-2 (Jan. 1, 2006) is amended to provide that for a business to qualify for the headquarters relocation tax credit, the annual worldwide revenues had to be at least \$100,000,000 (prior provision was \$500,000,000).

IC 6-3.1-30-8 (Jan. 1, 2006) is amended to provide that a business must have at least 75 employees in Indiana to qualify for the headquarters relocation tax credit.

HB 1380 SECTION 17 (Jan. 1, 2006) provides that the entire chapter concerning the headquarters relocation tax credit takes effect on Jan. 1, 2006, instead of Jan. 1, 2007.

Local Option Tax Provisions

IC 6-3.5-1.1-2.3 (Upon Passage) is added to permit Jasper County to impose an additional CAGIT rate of 0.25 percent. If an ordinance is adopted before June 1, 2006, the rate takes effect on July 1, 2006.

IC 6-3.5-6-29 (Upon Passage) is added to permit Scott County to impose an additional COIT rate of 0.25 percent. If an ordinance is adopted before June 1, 2006 the rate takes effect on July 1, 2006.

IC 6-3.5-7-26 (Upon Passage) is amended to provide that a county has until June 1, 2006, (instead of April 1, 2006) to adopt an ordinance to impose an additional CEDIT rate to offset the effects of the elimination of the property tax on inventory.



IC 6-3.5-1.1-2.5 (July 1, 2006) is amended to provide that the additional 0.1 percent that Jackson County is permitted to impose for the operation of jail and juvenile detention center is extended until June 30, 2011.

IC 6-3.5-6-29 (Upon Passage) is added to authorize Scott County to impose an additional COIT rate of 0.25 percent for financing and construction of jail facilities. The county income tax council has until June 1, 2006 to adopt an ordinance imposing the additional rate which would be effective July 1, 2006.

IC 6-9-24-9 (July 1, 2006) is amended to extend the Nashville food and beverage tax from Jan. 1, 2007, until Jan. 1, 2012.

Farm Mutual Insurance Company Tax Option

HB 1001 IC 27-5.1-2-8 (Jan. 1, 2006) is amended to provide that a farm mutual insurance company may elect to either pay the premium tax or the corporate adjusted gross income tax.

HB 1380 IC 27-5.1-2-8 (Jan. 1, 2006) is amended to provide that a farm mutual insurance company may elect to either pay the premium tax or the corporate adjusted gross income tax.

Toll Road Provisions (Major Moves)

HB 1008 (Upon Passage) IC 8-15-3-23 is amended to provide that an operator under a public-private agreement purchasing tangible personal property for incorporation into a structure or facility becoming part of the land included in a toll way is exempt from the sales or use tax for the tangible personal property purchased.

IC 8-15.5-8-2 (Upon Passage) is added to provide that income received by an operator under the terms of a public-private agreement is subject to taxation in the same manner as income received by other private entities. **(Indiana Toll Road)**

IC 8-15.5-8-3 (Upon Passage) is added to provide that an operator or any other person purchasing tangible personal property for incorporation into or improvement of a structure or facility constituting or becoming part of the land included in the toll road project is not exempt from the sales tax with respect to such purchase. **(Indiana Toll Road)**

IC 8-15.7-7-2 (Upon Passage) is added to provide that an operator or any other person purchasing tangible personal property for incorporation into or improvement of a structure or facility constituting or becoming part of the land included in a project is entitled to an exemption from the sales and use tax for that tangible personal property. **(I-69)**

IC 8-15.7-7-3 (Upon Passage) is added to provide that income received by an operator under the terms of a public-private agreement is subject to taxation in the same manner as income received by other private entities. **(I-69)**

Out of State Winery Shipments

HB 1016 (July 1, 2006) IC 7.1-3-26-9 is added to allow out of state wineries to sell direct to the Indiana consumer. Requires the out-of-state winery to remit to the Department all alcoholic beverage taxes and sales taxes on a monthly basis.

Howard County Innkeepers' Tax

HB 1025 (July 1, 2006) IC 6-9-16-6 is amended to extend the Howard County innkeepers' tax at 5 percent until Jan. 1, 2014. Current law has the rate being reduced to 4 percent on July 1, 2007.

College Choice Investment Tax Credit

HB 1029 (Jan. 1, 2007) IC 6-3-3-12 is added to provide an individual adjusted gross income tax credit for an individual or a married couple for contributions to an Indiana college choice 529 investment plan in the amount of 20 percent of the contribution or \$1,000 whichever is less.

Prepayment Calculation Sales Tax on Gasoline

HB 1214 (July 1, 2006) IC 6-2.5-7-1 is amended to change the definition of prepayment rate for calculating the sales tax on gasoline.



IC 6-2.5-7-14 (July 1, 2006) is amended to provide that the prepayment rate used in determining prepayment amounts of sales tax on gasoline may not exceed 125 percent of the prepayment rate used for the previous six month period.

Ethanol Fuel Sales Tax Incentive

SB 353 (July 1, 2006) IC 6-2.5-7-5 is amended to require retailers that sell gasoline through a metered pump to report the number of gallons of E85 sold during the reporting period. The section provides that the retailer can deduct \$0.10 per gallon of E85 sold from the amount of sales tax on motor fuel that is due for the reporting period. The amendment also provides that the total amount of deductions claimed cannot exceed \$2,000,000 for all retail merchants in all reporting periods. If the Department determines that the total amount of deductions allowed will exceed the \$2,000,000 cap, the Department shall publish in the Indiana Register a notice that the deduction is terminated after the date specified in the notice and that no additional deductions will be granted for transactions occurring after the date in the notice.

Gasoline & Special Fuel Electronic Filing

IC 6-6-1.1-515 (July 1, 2006) is added to provide that the administrator of the special tax division may require all reports required to be filed concerning the gasoline tax must be filed in an electronic format prescribed by the administrator.

IC 6-6-2.5-72 (July 1, 2006) is added to provide that the administrator may require special fuel tax reports to be filed in an electronic format.

Ethanol and Biodiesel Definitions

IC 6-6-1.1-103 (Jan. 1, 2006) is amended to define E85 as a fuel blend nominally consisting of 85-percent ethanol and 15-percent gasoline.

IC 6-6-2.5-1 (July 1, 2006) is amended to provide that biodiesel and blended biodiesel are not alternative fuels.

IC 6-6-2.5-1.5 (July 1, 2006) is amended to define biodiesel as a renewable, biodegradable, mono alkyl ester combustible liquid fuel derived from agricultural plant oils or animal fats that meets American Society for Testing and Materials specifications D6751-03a Standard Specification for Biodiesel Fuel (B100) Blend Stock for Distillate Fuels, as well as other fuels of the same derivation capable of use in the generation of power for the propulsion of a motor vehicle, airplane or motorboat. This section also defined blended biodiesel to be a blend of biodiesel with petroleum diesel fuel so that the volume percentage of biodiesel in the blend is at least 2 percent.

IC 6-6-2.5-3 (July 1, 2006) is amended so that the term blending does not include biodiesel or blended biodiesel.

IC 6-6-2.5-22 (July 1, 2006) is amended so that biodiesel and blended biodiesel are included in the definition of special fuel.

Motor Carrier Services Changes

IC 6-6-4.1-4.8 (July 1, 2006) is amended to provide that in order to claim a proportional use credit for motor carrier fuel use taxes, the claim for the credit must be filed by the due date of the quarterly return for which the credit is being claimed.

IC 6-8.1-4-4 (July 1, 2006) is amended to give the commissioner authority to deny any applications submitted by an operator of a commercial motor vehicle if the person has failed to file all returns and pay all taxes.

IC 6-8.1-10-13 (July 1, 2006) is added to provide penalties if a person operates without required credentials or operates with altered credentials.

IC 8-2.1-22-29 (July 1, 2006) is amended to provide the conditions where the Department or the state police department may impound a motor vehicle of a motor carrier that is not authorized to transport passengers for hire.

IC 8-2.1-22-40 (July 1, 2006) is amended to increase the fees that the motor carrier services division charges for various services.

IC 8-2.1-24-20 (July 1, 2006) is amended to provide that private intrastate carriers not hauling hazardous waste do not have to register under the single state registration system.



IC 8-2.1-24-28 (July 1, 2006) is amended to provide that the Department may not register a motor carrier if the motor carrier fails to comply with various federal regulations.

IC 9-20-18-14.5 (July 1, 2006) is amended to provide penalties for violations of oversize and overweight permit provisions.

SB 73 (July 1, 2006) IC 8-2.1-26 is added to provide that certain indemnity provisions contained in, collateral to, or affecting a motor carrier transportation contract are against public policy and are void and unenforceable.

SB 133 (July 1, 2006) IC 9-20-6-2 is amended to require that a permit issued for transporting an oversized tractor-semi trailer to authorize its operation from thirty minutes before sunrise until thirty minutes after sunset.

Commercial Driver's License Changes

HB 1300 (Upon Passage) IC 9-13-2-78 is amended to provide that a person enrolled as a student truck driver of a truck driver training school, and has a legal residence in another state but is living in Indiana for the sole purpose of taking a course of study from a truck training school, and intends to return to his home state after completing his training will be considered an Indiana resident.

IC 9-24-6-0.5 is added to provide for a commercial driver's learner's permit.

IC 9-24-6-2.5 is added to provide for the bureau to issue a commercial driver's learning permit after the applicant completes an examination.

IC 9-24-6-4 is amended to provide that a person must be eighteen years old and have at least one year of driving experience to qualify for a commercial driver's learning permit.

IC 9-24-6-5.3 is added to provide that the operator of a truck driver training school or a state educational institution must notify the bureau of a student's completion of the course, or the termination of the student's instruction in the truck driver training school. The school must retain records on each student for six years.

IC 9-24-6-5.5 is added to provide that a student of a truck driver training school and a truck driver training school are subject to rules adopted by the Department.

Crane Military Base Business Tax Incentives

HB 1259 (July 1, 2006) IC 6-2.5-4-5 is amended to provide that a business located in a county where the Crane military base is located will be considered to be a military base enhancement area, and can receive a sales tax exemption for utility services.

IC 6-3-2-1.5 (July 1, 2006) is amended to provide that a corporation located in a county where the Crane military base is located is to be taxed on its income at a rate of 5 percent instead of 8.5 percent.

IC 6-3.1-11.6-9 (July 1, 2006) is amended to provide that a business located in a county where the Crane military base is located is eligible for the military base investment cost tax credit.

Charity Gaming Responsibilities Transferred to Gaming Commission

SB 100 (July 1, 2006) IC 4-32 is repealed. This transfers the license and regulation of charity gaming from the Department to the Indiana gaming commission.

IC 6-8.1-3-18 is repealed. The section gave Department employees full police powers to enforce the charity gaming statutes.

Stadium Funding Procedures

SB 259 (July 1, 2006) IC 36-7-31-14.1 is amended to provide that the additional \$11,000,000 that the capital improvement board receives from the sales tax and withholding tax does not terminate until Jan. 1 of the year after the year that no obligations are outstanding.



Health Care Facility Quality Care Fee Assessment

SB 169 (July 1, 2006) Non Code SECTION 1 extends until Aug. 1, 2007, the quality care assessment fee levied on health care facilities.

Technical Changes

HB 1040 (Upon Passage) makes technical corrections in several sections of the Indiana Code. **IC 6-3.1-9-1; IC 6-3.1-9-2; IC 6-3.1-9-4; IC 6-3.1-26-18; IC 6-3.1-29-8; IC 6-3.5-7-13.1; IC 6-6-10-7; IC 6-8.1-10-1; and IC 8-2.1-22-46.**

HB 1134 (July 1, 2006) changes several internal references as a result of the school finance recodification. **IC 6-2.5-5-23; IC 6-3.5-1.1-10; and IC 6-3.5-1.1-14.**

SB 132 (July 1, 2006) makes technical changes to the Indiana Code as a result of the 2005 Child Services Act. **IC 6-3.1-21-9; IC 6-4.1-12-12; IC 6-8.1-7-1; and IC 6-8.1-9.5-13.**



Department Achievements and Improvements

Indiana Tax Amnesty -- In 2005, House Enrolled Act 1004 went into effect, opening the door to Indiana's first and only tax amnesty program. The Department of Revenue was responsible for implementing and managing the program, which was targeted to collect \$65 million in delinquent tax revenue. At the close of the program; however, the Department delivered more than \$244 million in amnesty collections.

Protests and Appeals -- The Legal division's backlog of protest/appeals has been reduced from more than 500 cases to 287. In addition, key performance metrics have been established in this division, which targets cases to be worked and resolved in 90 days or less.

Inheritance Tax Audits -- Despite a reduction in staff from 15 to nine employees, the inheritance tax section, part of the Legal division, has significantly reduced the amount of time it takes to complete an inheritance-tax audit. Now, instead of taking four months to complete an audit, the inheritance tax section completes audits regularly in an average of one week.

Electronic Filing -- Processing a paper return costs the Department a little more than \$1, while processing a return electronically costs an estimated 4 cents. This cost efficiency sparked a marketing-communication effort in 2006 to encourage electronic filing during the 2006 individual income tax season. Electronic filing overall increased by 20 percent in 2006, versus the same time period in 2005.

I-File -- Following a major upgrade of the state's online I-File program for filing individual income taxes, taxpayer usage increased by 17 percent in 2006, when compared with 2005 usage. In addition, survey data from more than 1,000 taxpayers shows that 94 percent of 2006 I-File users were satisfied with their experience. Likewise, 95 percent were likely to use it again, and 96 percent would recommend it to someone else.

Training -- The Department has developed a comprehensive internal training program to address competencies in key operational functions. One key training need identified is customer-service training. In 2005, mandatory customer-service training was established and has been delivered throughout the Department -- with more than 700 employees having completed the program. Now it is a mandatory part of the new-employee orientation process. Additionally, a fully comprehensive supervisory training program has been established. Currently, more than 150 Department management employees have participated in the training, ranging from listening and coaching to performance-management planning.

Improvements in Taxpayer Service and Education

The Department conducts workshops and seminars throughout the year for various segments of the public. Several seminars are offered to Indiana tax professionals on subjects such as Federal/State e-File and for Purdue and Indiana universities' annual tax schools.

The Department also provides information and tax training handbooks to Volunteer Income Tax Assistance volunteers and other groups that provide free tax preparation for disabled and low-to-moderate-income taxpayers. The materials and instructional seminars cover changes in tax legislation and policies. In addition, workshops are conducted specifically for new and small businesses on topics such as sales and use tax, and about how to get started on the right track with the Indiana Department of Revenue, among others important topics.

Seeking taxpayer input on a mass scale is important for gathering feedback that can be generalized to the larger taxpayer population. The Department's newly revamped public relations division regularly seeks taxpayer input through surveys, focus groups, Web feedback e-mail and the Department's annual meeting in June.

In addition, the Department's taxpayer services division, alone, assisted the following numbers of taxpayers in fiscal year 2006:

- Telephone Calls: 394,366
- E-mails: 33,427
- Walk In: 14,258
- Correspondence: 21,785



Increases in the Enforcement Capability of the Department :

In FY 2006, the Department suggested new legislation for consideration during the 2006 General Assembly. The suggestions focused on increasing the efficiency and effectiveness of tax collection in Indiana. As a result, Senate Enrolled Act 362 was passed, and provides for the following improvements in the coming year:

- **Sales Tax Enforcement** -- The most abused tax in terms of delinquency is sales tax, with some businesses collecting the tax from customers, but then failing to pay it to the state. SEA 362 provides the Department, effective Jan. 1, 2007, with new leverage in enforcing sales tax remittance. The legislative provision requires biennial renewal of all retail merchant certificates (RMC), and prohibits those businesses that are not current on sales tax from renewing their RMCs. This provides leverage in that sales merchants are not permitted to transact business in the state of Indiana without an RMC.
- **Collection Compression** -- SEA 362 also provides legislation to compresses the tax-collection timeframe from two years to one year. This compression will enable the Department to collect taxes owed more quickly, instead of allowing delinquencies to linger in the administrative and judicial systems. With this provision, both taxpayers and the Department will find resolution on tax issues significantly sooner.



Tax Help

Internet Access

Access to forms, information bulletins and directives, tax publications, e-mail, I-File (the PC-Filing Program), etc. www.in.gov/dor

Telephone Numbers

Automated Information Line

Check on the status of refunds; prerecorded tax topics; tax liability balances -- (317) 233-4018

Collection/Liability Inquiries -

(317) 232-2165

Corporate Tax Information -

(317) 615-2662

Individual Income Tax Information -

(317) 232-2240

Motor Carrier Services "One Stop Shop"-

(317) 615-7200

Sales Tax Information -

(317) 233-4015

Tax Forms Order Line

Available 24 hours a day -

(317) 615-2581

Telephone Device for the Deaf (TDDY) -

(317) 232-4952

Withholding Tax Information -

(317) 233-4016

DISTRICT OFFICE LOCATIONS

Indianapolis (Main Office)

Indiana Government Center
North, Rm N105
100 N. Senate Avenue
Indianapolis, IN 46204
(317) 232-2240

Bloomington District Office

410 Landmark Ave.
Bloomington, IN 47403
(812) 339-1119

Clarksville District Office

1446 Horn Street
Clarksville, IN 47129
(812) 282-7729

Mailing address: P.O. Box 3249
Clarksville, IN 47131-3249

Columbus District Office

3136 N. National Rd., Suite H
Columbus, IN 47201
(812) 376-3049

Evansville District Office

500 S. Green River Road
Suite 202, Goodwill Building
Evansville, IN 47715
(812) 479-9261

Fort Wayne District Office

1415 Magnavox Way Suite 100
Fort Wayne, IN 46804
(260) 436-5663

Kokomo District Office

117 East Superior Street
Kokomo, IN 46901
(765) 457-0525

Lafayette District Office

100 Executive Drive, Suite B
Lafayette, IN 47905
(765) 448-6626

Merrillville District Office

8368 Louisiana Ave., Suite A
Merrillville, IN 46410
(219) 769-4267

Muncie District Office

3640 N. Briarwood Lane, Suite 5
Muncie, IN 47304
(765) 289-6196

South Bend District Office

1025 Widener Lane
South Bend, IN 46614
(574) 291-8270

Terre Haute District Office

30 N. 8th Street, 3rd Floor
Terre Haute, IN 47807
(812) 235-6046

**District office business
hours are
8 a.m. to 4:30 p.m.
Monday - Friday.**



Access Indiana Information Network

Comprehensive information about your Indiana state government, including advice on what to do in emergencies, can be found on the state's official Web site, the Access Indiana Information Network, at:
www.in.gov